

THE ANGLO-IRANIAN OIL CRISIS

by

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## TABLE OF CONTENTS

PREFACE.....	iii
CHAPTER I: INTRODUCTION.....	1
CHAPTER II: DEVELOPMENT OF BRITISH INTERESTS IN PERSIA UNTIL 1932.....	5
CHAPTER III: THE ANGLO-PERSIAN COMPANY'S ROLE IN PERSIA THROUGH THE SIGNING OF THE NEW TREATY IN 1933.....	17
CHAPTER IV: PROBLEMS OF THE NEW AGREEMENT: WORLD WAR II.....	42
CHAPTER V: THE NATIONALIZATION OF THE OIL INDUSTRY IN IRAN.....	65
CHAPTER VI: CONCLUSION.....	90
APPENDIX.....	98
Appendix A.....	99
Appendix B.....	101
Appendix C.....	102

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## PREFACE

The story of Iranian oil is characterized by innumerable examples of exploitation, deceit and treachery, international intrigue, and struggles for power. Bounded by Iraq and Turkey on the west, by the Soviet Union and the Caspian Sea on the north, by Afghanistan and West Pakistan on the east, and by the Persian Gulf on the south and southwest, the ancient land of Iran, or Persia as it was called until 1935, has been in the international spotlight since discovery of oil under its arid hills in 1908.

Great Britain, through control of a stock majority in the Anglo-Iranian Oil Company, has played the lead in the Iranian oil drama. Great Britain gained its early advantage in Iran through a concession for exploitation of oil and other minerals granted in 1901 to a British subject, W. K. D'Arcy. The British were able to strengthen their hold in 1933 with a new agreement which extended the concessionary period to 1993. During this time it also was able to fend off attempts by Russian and American oil companies to gain oil rights in Iran.

But by May of 1951 the wheel that was Iranian oil had completed its cycle. Just fifty years from the time of the original D'Arcy concession, Iran closed the door on Great Britain by nationalizing its oil industry. The purpose of this thesis is to trace the course of the oil problem through the first stormy fifty years of the twentieth century.

Although considerable material has been written on the problem, to the author's knowledge no complete study has been made on the subject which presents both the Iranian and British viewpoints.

Material in the Kansas State College library was limited almost chiefly to periodical articles since 1933. Secondary sources containing considerable information on the subject were obtained from the Universities of Colorado and Kansas libraries.

The author is indebted to the British and Iranian embassies in Washington, the Anglo-Iranian Oil Company, Ltd., and its New York affiliate, W. D. Heath Eves, for their valuable help in supplying pamphlets and other printed material dealing with the problem. I also wish to thank and acknowledge my indebtedness to the many persons who have assisted in gathering and assembling these data with particular thanks to Dr. Verlin Baeterling for his counsel and guidance while this material was being gathered and written into an acceptable composition.

## CHAPTER I

### INTRODUCTION

Nowhere in the world today, where actual fighting does not exist, is there a more explosive situation than in the Middle East Kingdom of Iran whose semi-arid tableland covers one of the world's richest oil deposits. With the military machines of modern nations dependent on a steady supply of oil and its refinements, nations of the world have waged a constant under-cover struggle for control of this kingdom's resources.

The most successful nation in exploiting Iran's oil treasures was Great Britain through concessions granted to the Anglo-Iranian Oil Company dating back to 1909 when the company was formed. The British government gained controlling interest in the company in 1914 when it purchased fifty-three percent of the stock. The 100,000-square mile oil-producing area was the main factor in keeping Great Britain's giant fleet on the sea. By 1950 the Anglo-Iranian Company's Abadan refinery was the largest in the world.

However, all has not run smoothly for Britain in this ancient land which was known as Persia until 1935. Dissatisfied with royalties from the original concession, the Persian government cancelled its agreement with the Anglo-Persian Oil Company December 17, 1932. A new sixty-year agreement was signed in April, 1933, which would have extended to 1993. This agreement was augmented in 1949 by a supplemental treaty which increased Iran's income.

The world's attention was focused sharply on Iran in 1951 when on April 27 the Majlis (lower house of the Iranian Parliament) voted unanimously to confirm the decision of the Iranian Oil Commission that the country's oil industry be nationalized. On April 29, the Iranian Senate also voted unanimously to nationalize the oil industry. Thus the valve was tightly closed on Great Britain's bountiful oil monopoly in southwest Iran. The Iranian government announced its intention in 1951 of operating the oil fields, pipelines, and refineries of the Anglo-Iranian Company and maintains that it will sell to Britain, on a basis of ordinary commercial contracts, oil products in quantities which have been supplied in recent years for British consumption.

Whether or not the Iranian government will be able to get the former Anglo-Iranian oil industry into effective operation to supply Great Britain and other countries of the world with the vital oil products, will be determined only by time. The problems inherent in replacing British technicians and workers with Iranian and other foreign workers, many of whom lack adequate training, are tremendous. If at all possible, British oil experts say it will take several years. Such a delay could be disastrous to Britain as a cornerstone of the West in the clash of interests with the Soviet Union.

The problem of Iranian oil is magnified by the "cold war" between west and east. Bounded on the north by the Caspian Sea and the Trans-Caucasian and Turkestan territories of the Soviet Union, Iran's strategic importance in the Middle East as well as its rich resources would make a vital addition to the Soviet orbit. The



Soviets shared joint occupancy of the country during World War II with Britain and the United States in order to prevent the Axis powers from gaining control of the oil fields. Although Great Britain and the United States withdrew in 1945, the Soviets would not leave until an appeal was made to the United Nations Security Council by the Iranians in 1946. On April 5, 1946, the joint USSR-Iranian Oil Company was established for exploitation of oil resources in northern Iran.

The loss of Iran to the communists would be a great blow to the western world. Iran is bounded on the west by the Republic of Turkey, which has cast its lot in the fight against communism, and the Kingdom of Iraq which has allowed British and American oil interests to develop its resources. On the east are the mountainous countries of Afghanistan and Pakistan. The passes to Pakistan and to the northwest of India could serve as a gateway to India for an aggressor.

The Middle East, with Iran thrust into the spotlight by its decision on nationalization, is a keystone of world geopolitics. The country which gained control of this area could well dominate Europe because of the vital resources and trade routes. As the Balkans was the "powder keg" of Europe in 1914, Iran and the Middle East is the "powder keg" of the 1950's. The slightest incident could be the act which might set the armed camps of the Soviet Union and the noncommunist countries into total conflict.

Because of the vital role in world history which could be played by Iran, a study into the background of the country's oil problems with Great Britain is of extreme importance. Although much has been written both by Iranian and British writers regard-

ing the recent oil crisis, no comprehensive study has been made into the background of the dispute; a problem which contains examples of international intrigue, imperialism, and exploitation. I have conducted my research with the intent of studying this explosive issue. Here may be found an unusual type of imperialism contested by a developing nationalism. The Anglo-Iranian Oil Company was controlled by the British government. It occupied a place of great importance in the strategic and military plans for Empire defense. However, the exploitative riches of an older type of colonialism has to be tempered in the mid-twentieth century by a regard for the improvement, uplift, and nationalist aspirations of the Iranians.

My information has been gathered from a variety of sources which include books on Persian history, records of British Parliamentary Debates, books and periodicals devoted to the oil industry, newspapers, general periodicals, and materials submitted by the British and Iranian embassies in Washington, D. C., and the Anglo-Iranian Oil Company, Ltd.



## CHAPTER II

### DEVELOPMENT OF BRITISH INTERESTS IN PERSIA UNTIL 1932

Oil, the black gold which oozes in some places from Iran's sandy hills, has cast that Middle Eastern country into the international spotlight. Many nations of the world have struggled with one another for possession of the sticky fluid with millions of dollars being spent for its control and development. Trickery and deceit, power politics, and undercover schemes all have been a part of the struggle to gain control of the treasure which lies hidden under the Persian hills.

Great Britain, through its control of the Anglo-Persian Oil Company,<sup>1</sup> has been the most powerful European nation in the Middle East. However, the discovery of oil has increased Great Britain's interest in this area which has been economically and strategically important for almost 400 years. Britain assumed burdens and responsibilities in Iran without owning territory there and kept peace among peoples who were not Empire subjects. In the twentieth century Britain's interest in that part of the world became intensified because of the need for oil, the lack of which would doom it as a modern power.

The first recorded evidence of Great Britain's realization of the economic potentialities in the Middle East was in 1563 when

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<sup>1</sup>The company's name was changed to the Anglo-Iranian Oil Company in 1935 when the country's name was changed from Persia to Iran.

Queen Elizabeth granted a passport to one Anthonie Jenkineon for trading purposes. However, as a Christian Mr. Jenkineon was unable to make progress with Moslem traders. It was not until several years later that Sir Anthony Sherley went to Pereia and received a grant from Shah Abbas the Great, which threw Pereia open to merchants of all nations.<sup>2</sup> Thus began the rivalry between nations in this area, which has existed to modern times.

For the next 300 years Europe's maritime powers struggled for control of the Persian Gulf. Great Britain defeated the Portuguese in 1622, and since then has had almost constant control of the Gulf. However, on the mainland the story was different. In the late 1700's Russia began its advance into central Asia. Fearing for the safety of India, Great Britain induced the Persians to attack Afghanistan as part of the long struggle by Persia to recover its eastern possessions. In 1800, a political and commercial treaty was concluded between the British and the Persians by Sir John Malcolm, representing the East India Company, in which it was agreed that hostilities would continue until the Afghans gave up their designs on India. Russia became interested in 1804 when its troops advanced on Erivan but were beaten back. Russian troops defeated the Persians in 1812 at the Battle of Alanduz. Persia was forced to cede Derbent, Baku, Shirvan, Shaki, Karabagh, and part of Talieh, all provinces along the Persian-Russian border.<sup>3</sup>

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<sup>2</sup>G. Coleridge, "Our Position in the Persian Gulf," Fortnightly Review, February, 1933, p. 185.

<sup>3</sup>William L. Langer, An Encyclopedia of World History (Boston: Houghton Mifflin Company, 1948), p. 862.

France also made its move during this period when Napoleon offered, in 1806, to support Persia in the reconquest of Georgia and in its attack on India. France and Persia signed the Treaty of Finkenstein in May, 1807, in which France was required to send a military mission to help reorganize the Persian army.<sup>4</sup> The French, however, lost interest later that year following the Treaty of Tilsit which halted hostilities between them and Russia--leaving Napoleon virtual master of the continent.

Great Britain strengthened its position with Persia in 1814 when the latter agreed to cancel treaties with European powers which were hostile to England. The two countries promised mutual aid in case of attack with England sweetening the bargain with a subsidy of 150,000 pounds.<sup>5</sup> The British failed to live up to the treaty in 1827, when Persia, under attack again from Russia, asked for help and the British bought release from the treaty. British policy again seemed inconsistent, in 1837, when its navy demonstrated in the Persian Gulf to persuade the Persians to lift the siege of Herat, supposedly the key to Afghanistan.<sup>6</sup> However, the lifting of the siege of Herat did not dim Persia's desire for

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<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> W. E. Lunt, History of England (New York: Harper and Brothers, 1938), p. 667.

Afghanistan. Britain and Persia went to war in 1856 when the Persians took Herat. In 1857 the Treaty of Paris was signed in which the Persians agreed to evacuate Afghan territory and to recognize its independence.<sup>7</sup>

Russia re-entered the scene in 1824 when the Czar's armies completed their domination of Turkestan. "From this time the growth of Russian influence in northern Persia was rapid and almost irresistible."<sup>8</sup>

At the same time, other countries continued their interest in this strategic land. In 1894, a German vessel arrived carrying consuls and vice-consuls to take up residence and look after the interests of the six German subjects in the Persian Gulf area. In 1900, three ships of the Imperial Russian Fleet arrived and cruised to all Gulf ports with a great show of ceremony and entertainment.

Probably no one knew the strategic importance of this Middle Eastern area better than Lord Curzon. As British Viceroy of India, he backed his written opinions by personal action and in 1903 toured, in state, the Persian Gulf area. He gave an impressive demonstration of the splendor and power of Great Britain which no other nation could hope to match in those waters.<sup>9</sup>

Persia and the Persian Gulf were vital links in the British defense of India, but Persia also played an important part in Britain's desire to thwart the warm-water-port aspirations of Rus-

<sup>7</sup>Langer, op. cit., p. 864.

<sup>8</sup>Ibid.

<sup>9</sup>Coleridge, loc. cit., p. 186.



sia. With the Caspian Sea and Russian territories of Trans-Caucasia and Turkestan bordering Persia on the north, Russia looked with extreme disfavor upon British influence in Persia. Within a few years after the discovery of oil this rivalry was heightened as both countries began to realize the value of the black fluid to their war and industrial potentials.

Although the modern history of Persian oil begins in 1901, knowledge of its existence in that arid land can be traced to Bible times. Petroleum textbooks point out how the seams of Noah's ark were calked with petroleum; and references to the "eternal fire" that presumably burned from gas or oil seepage from the rocks and sands of "Greater Persia" can be found in the Bible.<sup>10</sup> Ancient histories of Persia also told of giant torches, symbolizing the fire god Ormuzd, which were burned by Zoroastrian priests. It was the mention of these giant torches which incited the original interest of William Knox D'Arcy who was to uncover the hidden oil treasures in southwest Persia.<sup>11</sup>

Apparently little is known of D'Arcy's background. He is variously referred to as a native of England,<sup>12</sup> Australia,<sup>13</sup> and New Zealand<sup>14</sup> who had made money as an engineer in gold operations

<sup>10</sup>C. M. Wilson, Oil Across the World (New York: Longman's, Green and Company, 1946), p. 99.

<sup>11</sup>Frank C. Hanighen and Anton Zischka, The Secret War--The War for Oil (London: George Routledge and Sons, Ltd., 1935), p. 1.

<sup>12</sup>E. H. Davenport and Sidney Russell Cooke, The Oil Trusts and Anglo-American Relations (New York: Macmillan Company, 1924), p. 11.

<sup>13</sup>Hanighen and Zischka, op. cit., p. 3.

<sup>14</sup>Langer, op. cit., p. 864.



in Australia. With his interest aroused by tales of the ancient fire cults, D'Arcy reasoned that the oil pool which had been discovered a few years earlier by the Russians in the Caspian Sea area probably extended south into Persia where the fire cult existed. The engineer began to sink test holes and poured most of his fortune into the unsuccessful quest, although no evidence can be found that he had official permission of the Persian government to seek oil. With his money almost gone, D'Arcy came to the attention of the British when he made a fruitless trip to England to obtain financial assistance. Returning to Persia, D'Arcy rebuilt his fortune by constructing railroads for the Persian government. In return for his services, the grateful Shah in 1901 gave D'Arcy a sixty-year concession to "probe, pierce, and drill...the depths of Persian soil; in consequence of which all the sub-soil products sought by him without exception will remain his inalienable property."<sup>15</sup> The concession, which included all but the five northern provinces, was given by the Shah for 20,000 pounds cash, plus a similar amount in paid-up shares, and a sixteen percent royalty of the annual profits.<sup>16</sup> However, some discrepancy exists in the amount the Persians gained from allowing the first oil concession.<sup>17</sup>

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<sup>15</sup>Hanighen and Zischka, *op. cit.*, p. 2-4.

<sup>16</sup>Brig. Gen. Sir Percy Sykes, *A History of Persia*, Vol. II (London: Macmillan and Company, Ltd., 1921), p. 534.

<sup>17</sup>Hanighen and Zischka say that D'Arcy paid 5,000 pounds cash, pledged an equal amount and agreed to give the Shah sixteen percent royalties. However, Sykes, Bouillon, and Langer agree on the 20,000-pound sum.

Confusion also exists among historians as to how long D'Arcy stayed in Persia and how much actual drilling he did after obtaining the concession. It is agreed, though, that D'Arcy needed added financial help. Rugged terrain, unfriendly natives, and lack of knowledge of local conditions caused him eventually to turn to outside aid.<sup>18</sup>

Oil in a large amount eventually was struck at the site of Maydan-i-Naftun or the "Plain of Naphtha"<sup>19</sup> which now is known as the Masjid-i-Sulaiman field. Here an excellent supply was found at a depth of 1,180 feet on May 26, 1908.<sup>20</sup>

At this point, D'Arcy apparently ended his personal interest in the venture. Hanighen and Zischka, in a rather sensationalized book, "The Secret War--The War for Oil", pictured him as "old and tired"<sup>21</sup> and willing to give up his quest for oil after proving his point that it actually did exist in the sterile Persian hills. Weaving a story of mystery and intrigue, the authors told how D'Arcy sublet his concession to the Burmah (sic) Oil Company of England but led it to believe that the concession covered only a small area. On his way home to Australia, via the United States, D'Arcy is said to have stopped in Alexandria where oil agents made

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<sup>18</sup>Location of D'Arcy's first drilling after obtaining the concession is uncertain. A June, 1948, Petroleum Times article located it at Chiah Surkh near the Persian-Turkish border while Sykes places it near Kasr-i-Shirin. Oil was found here, Sykes relates, but was not exploited because of its location 300 miles from the coast and the presence of unfriendly natives. The Petroleum Times states that D'Arcy formed The First Exploitation Company in 1903 while Sykes identifies it as the Burma Oil Company.

<sup>19</sup>Sykes, op. cit., p. 535.

<sup>20</sup>"Review of Middle East Oil (Iran)", Petroleum Times, June, 1948, p. 9.

<sup>21</sup>Hanighen and Zischka, op. cit., p. 4.

attempts, ranging from bodily attack to an offer of 6,000,000 pounds sterling, for the original concession paper. Aboard a ship bound for America the engineer became acquainted with a missionary returning from Africa. Hanighen and Zischka said that two days before the ship docked the missionary persuaded D'Arcy to give him the document to be used as an opening wedge for missionary work in Persia. The missionary is said to have been Sidney Reilly who was "one of the cleverest agents of the extraordinary undercover organization which works in devious ways for the protection and development of the British Empire."<sup>22</sup> Reilly later became chief of the British espionage service in Russia and eventually headed the Secret Service during the Allied intervention in Russia in World War I.<sup>23</sup>

Although it is uncertain whether or not the British government resorted to trickery to obtain D'Arcy's concession or what its exact interests were in the Burma Oil Company, it is certain that Great Britain zealously strengthened its hold in southern Persia in the early 1900's. The question of the control of the Persian Gulf was not included in the Anglo-Russian Convention of 1907, but Sir Edward Grey, who had become foreign secretary in 1905, wrote on August 29, 1907, that the Russian government had "explicitly stated that they do not deny the special interests of Great Britain in the Persian Gulf--a statement of which the Government have formally taken notice."<sup>24</sup>

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<sup>22</sup>Ibid., p. 5-7.

<sup>23</sup>Ibid., p. 7.

<sup>24</sup>Sir J. A. Marriott, Anglo-Russian Relations, 1689-1943 (London: Methuen and Company, Ltd., 1944), p. 11.

The part of the Anglo-Russian Convention which agreed to the partition of Persia was severely criticized in England with Lord Curzon leading the fight.<sup>25</sup> Persia was mapped out into three divisions with the British sphere being located in the south and east, including the coastal district of the Persian Gulf and of the Indian Ocean to the Baluchistan frontier. Russia's sphere embraced the north and center including the cities of Tabriz, Teheran, and Ispahan. In between the two zones was a neutral area where both powers could be granted political or commercial concessions. The agreement was not so distasteful to Foreign Secretary Sir Edward Grey who pointed out that Russia had made substantial concessions in Afghanistan, a territory which the Russians agreed was beyond its sphere of influence; and that it would conduct all political relations in this area through the intermediacy of Great Britain.<sup>26</sup>

The Anglo-Persian Oil Company came into existence in 1909 when it took over the former D'Arcy concession in Persia, then held by the Burma Oil Company. The Company was formed with an original capital of 2,000,000 pounds. The tempo of oil development in Persia immediately was stepped up with a pipeline being run from the wells on the Karun River, through Ahwaz to the Island of Abadan, a few miles below Mohamera where a refinery was established.<sup>27</sup> The pipeline, with an annual capacity of 400,000 tons, was completed in 1911 and production from the Masjid-i-Sulaiman

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<sup>25</sup>Ibid., p. 162

<sup>26</sup>Ibid., p. 161-62.

<sup>27</sup>Sykes, op. cit.



field started that year.<sup>28</sup>

Although the British government had an unofficial interest in the development of the Anglo-Persian Oil Company, through Lord Strathcona, high commissioner for Canada who was chairman of the company's board, its active interest in the company can be traced to Winston Churchill who became First Lord of the Admiralty in 1911. His foresightedness in recognizing the value of Persia's oil to the Royal Navy was the main factor which thrust the British government into a controlling share of the Anglo-Persian Oil Company in 1914.

With Germany becoming a dangerous naval power, Churchill was faced with the task of modernizing Britain's Navy to meet this threat. He decided to add fifteen-inch guns to the Royal Navy, but since a gun of that size would dominate the ships then in existence, it was necessary to reduce weight elsewhere. Since it was impossible to sacrifice armor, Churchill decided to eliminate the bulky coal bunkers by substituting oil. He reasoned that oil meant greater speed, greater range of action, and permitted refueling of fleets at sea. Although the Admiralty leader's decision precipitated a struggle for oil in which Britain was a major contestant, his action was justified when the new fifteen-inch guns helped contain the German fleet in the North Sea.

Mr. Churchill, in his book, "The World Crisis", traces these momentous steps. He tells of the Royal Commission on Oil Supply headed by Lord Fisher and of the Admiralty's search for oil. He

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<sup>28</sup> Petroleum Times, loc. cit., p. 9.



concluded:

Thus each link forged the next. From the original desire to enlarge the gun we were led on step to the Fast Division, and in order to get the Fast Division we were forced to rely for vital units of the Fleet upon oil fuel. This led to the general adoption of oil fuel and to all the provisions which were needed to build up a great oil reserve. This led to enormous expense and to tremendous opposition on the Naval Estimates. Yet it was absolutely impossible to turn back. We could only fight our way forward, and finally we found our way to the Anglo-Persian Oil agreement and contract which for an initial investment of two millions of public money (subsequently increased to five millions) has not only secured to the Navy a very substantial proportion of its oil supply but has led to the acquisition by the Government of a controlling share in oil properties and interests which are at present valued at scores of millions sterling and also to very considerable economies, which are still continuing, in the purchase price of Admiralty oil.<sup>30</sup>

Nevertheless, Churchill wasn't able to carry his plan through Parliament without lengthy discussion and at times vehement opposition. Considerable debate was carried on when on June 17, 1914, the Admiralty introduced a resolution to authorize 2,200,000 pounds out of the Consolidated Fund for the acquisition of share or loan capital of the Anglo-Persian Oil Company.<sup>31</sup> The resolution carried, after long discussion, by a vote of 254 to 18.<sup>32</sup> The Resolution, as Bill 345 titled the Anglo-Persian Company or the Acquisition of Capital Bill, was passed and went into effect August 10, 1914.<sup>33</sup>

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<sup>29</sup> Joseph Borkin and Charles A. Welsh, Germany's Master Plan (New York: Duell, Sloan, and Pearce, 1943), p. 186-88.

<sup>30</sup> Winston Churchill, The World Crisis (London: T. Butterworth, Ltd., 1929), p. 81.

<sup>31</sup> Parliamentary Debates, Vol. 63, (London: T. C. Hansard, n.d.), p. 1131.

<sup>32</sup> Ibid., p. 1250.

<sup>33</sup> Ibid., Vol. 65, p. 1302.

Thus the die was cast with the British government supporting the oil company that changed the history of modern Persia. Without the oil from Persia's fabulously rich pools the British Navy probably would not have been able to maintain the mastery of the seas which it has enjoyed. Without the wealth poured into that arid and backward land by the British government-controlled oil company that country might still be sleeping on through the present century. But the development of Persia's hidden treasure has not been an easy, nor a satisfactory, task for either country, as later chapters will reveal.

### CHAPTER III

#### THE ANGLO-PERSIAN COMPANY'S ROLE IN PERSIA THROUGH THE SIGNING OF THE NEW TREATY IN 1933

The British government's decision to gain control of the Anglo-Persian Oil Company through purchase of fifty-three percent of its stock was less than two months old when World War I broke out. With a simultaneous contract, instigated by Winston Churchill, then First Lord of the Admiralty, for purchase of oil from the company at a reduced rate, the Persian oil program had to be pushed forward hastily and in circumstances of greatest difficulty. Communications were poor and it became increasingly difficult to obtain construction supplies from England because of the German submarine menace and the demands for shipping elsewhere. When Turkey entered the war in November, 1914, on Germany's side, the proximity of hostile forces prompted Britain to dispatch forces to protect Persia as well as its oil interests. This chapter, therefore, will show the effect of World War I on Persia and the oil situation and will include events leading up to, and including the Persian cancellation of the D'Arcy concession<sup>1</sup> in 1932 and the new treaty signed with Britain in 1933.

Persia proclaimed its neutrality on November 1, 1914, but was too weak to enforce it. Russian, Turkish, and British armies fought in Persia with the usual war results of famine, epidemics, and decimation. By 1918 Persian deaths as a direct or indirect

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<sup>1</sup>Supra, p. 10.

result of hostilities had reached 2,000,000.<sup>2</sup>

Russian troops moved into the northern provinces in 1914 and met Turkish forces in several sharp battles. British troops moved into the country in January of 1915 to protect the Anglo-Persian holdings in the south and to cut off German propaganda efforts which were intended to stir up trouble for Great Britain in Afghanistan on the Indian frontier.

Although sharp clashes of interest were to arise after the close of hostilities between Britain and Russia, the two countries co-operated during the early war years. Little attention was paid to the 1907 agreement which divided Persia into three zones. To strengthen the Russian position, the British granted Russia a free hand in their (British) zone while Russia allowed Britain to occupy the neutral zone to protect Anglo-Persian holdings.

Persia was cleared of both Turkish and Russian troops in 1917. The Turks were defeated at Baghdad and fell back from Persia in March while the Russians began to withdraw in November after the Bolshevik Revolution. This opened the door for British military forces to occupy the entire country in January, 1918, when a detachment was sent to the northern provinces to prevent an anticipated Bolshevik attempt on India from that direction.

Britain thus assumed virtual control over Persia under the cloak of wartime necessity. This was vigorously opposed by Per-

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<sup>2</sup>"Anglo-Persian Relations," Edinburgh Review, October, 1929, p. 196.

sian nationalists, although British forces were withdrawn in 1919.<sup>3</sup>

Despite the presence of British armed forces in Persia for four years, some damage was done to Anglo-Persian installations. Warlike Bakhtiari tribesmen were induced by Turkish and German agents to cut the pipeline near Ahwaz in 1915 which made it useless for three months and caused suspension of operations for that time. By 1917 the tribesmen were subdued with no more damage being done to wells or pipeline.<sup>4</sup>

The Treaty of Versailles on June 28, 1919, officially ended the most destructive war the world had known to that date but it also marked the beginning of the struggle between Britain and Soviet Russia for control of Persia's oil treasures as well as the strategic position the country held in the Middle East. The 1920's were years of intrigue in Persia and were highlighted by a militaristic coup d' etat on February 21, 1921, led by Reza Khan, an officer of the Cossack Brigade, who was proclaimed Shah by the National Assembly December 13, 1925. Reza Khan was crowned April 25, 1926.

Persia, with an area equal to a combination of Germany, France, Belgium, and Spain, was dependent on trade with Britain and Russia for its existence in the twentieth century. Only the northern provinces were agriculturally prosperous and they had

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<sup>3</sup>Sir Edward D. Ross, The Persians (Oxford: The Clarendon Press, 1931), p. 70.

<sup>4</sup>A Short History of the Anglo-Iranian Oil Company (Pamphlet published by the Anglo-Iranian Oil Company, Ltd., May, 1951), p. 3.



been economically dependent on Russia for manufactured goods and raw materials alike. Before World War I, Russia enjoyed first place in the world's trade with Persia, Britain was second, Germany was fourth, and the United States was twelfth. Russian trade in 1913-14 was 658,000,000 francs compared to Britain's 235,000,000 francs. However, the effect of the Anglo-Persia Oil Company on Persian economy was evident in 1920-21 when Russia's business dropped to 29,000,000 francs while Britain's climbed to 708,000,000. Russia has been unable to regain its former lead.<sup>5</sup>

Great Britain attempted to seal its ascendancy in Persia with the Anglo-Persian Agreement which was negotiated August 9, 1910. The integrity and independence of Persia were reaffirmed with Britain further agreeing to supply munitions and furnish officers and advisers to preserve order. Persia was promised a loan and aid was to be given in railroad and road construction. The tariff was to be revised. Despite considerable British pressure, the Persian Assembly (Majlis) refused to ratify the agreement. When Reza Khan assumed control of the country in 1925, the new government's first official act was to drop the unratified agreement and to conclude a treaty with Russia which was anxious to regain commercial ground lost to the British. The February 26, 1921, treaty in which Russia agreed to evacuate Persia, cancel all debts and concessions, and turn over, without indemnity, all Russian property in Persia was to become increasingly vexing to Brit-

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<sup>5</sup>Louis Fischer, "Persia, the Victim of Russo-British Rivalry," Current History, February, 1925, p. 711.

ish and American oil interests in later years as suspected northern oil pools became increasingly attractive.

During the triangular diplomatic maneuverings between Persia, Britain, and Russia, the Anglo-Persian Oil Company continued to expand its facilities and activities in south Persia. Evidence of the British government's increased interest in the Persian oil venture was shown by the Anglo-Persian Oil Company (Acquisition of Capital) Amendment Act of 1919 on December 23, 1919, in which an additional 2,050,000 pounds were invested in the company.

The resolution was introduced in the House of Commons on December 11, 1919, by Mr. Baldwin, who reviewed the problems that had been present in 1914 when the government acquired its controlling interest in the company. The Admiralty had been anxious, not only to develop a potentially great oil-producing region with British capital, but to have the British government actually control the company by owning sufficient capital stock to give it the deciding vote in policy. He continued:

We know two things which we did not know then. We know that this is a great oil field and we know that oil fuel has come to stay. The Anglo-Persian Company has been successful beyond, I should imagine, the hopes of its most ardent admirers in the old days. So much has the business developed that they have had to raise a considerable amount of fresh capital, and the question, of course, then arose, was the Government to apply for enough of that new issue of capital to still maintain its controlling interest in the Company...I should never be one to advocate the investment of public money in a company for the sake of gain and only on the ground of policy, yet I would remind the House that there is every prospect of this Anglo-Persian investment being an extremely remunerative one. Although during the first few years...it paid nothing on its ordinary shares, last year and this year it paid ten percent free of tax, and the prospects of the

Company in the future are, I think, very bright.<sup>6</sup>

Opponents of the resolution stated that the government should withdraw since it had launched a successful enterprise; that the government should not compete with private enterprise; and that at least one oil-field was in a "no man's land."<sup>7</sup> However, the resolution passed, and after extensive debate the next day at second reading<sup>8</sup> was passed and put into force.<sup>9</sup>

The center of Anglo-Persian interest was the rich Masjid-i-Sulaiman field 145 miles from the northeast shore of the Persian Gulf. Harshness of the terrain and the lack of transportation facilities prompted the company to build one of the world's largest refineries on the Island of Abadan, which is located on the east shore of the Shatt-el-Arab estuary formed by the junction of the Karound and Tigris Rivers. Construction of the refinery was begun in the winter of 1909-10, but difficulties, ranging from technical problems to climatic troubles, delayed the plant's completion until 1912. It did not function normally until the following summer. The refinery was connected with the oil field by a pipeline which was six inches in diameter, over the hilly sections, which have a maximum altitude of 1,300 feet, and an eight-inch pipe in the level desert areas. The original line had been completed in 1911. The project included the 900-foot crossing of the Bahmashir River that divides Abadan from the mainland. This connection took

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<sup>6</sup> Parliamentary Debates, Vol. 122 (London: T. C. Hansard, 1823), p. 1758-59.

<sup>7</sup> Ibid., p. 1759-66.

<sup>8</sup> Ibid., p. 1861-75.

<sup>9</sup> Ibid., Vol. 123, p. 1301.

place some three years before the British government added its resources to the company. The first line had a capacity of 9,000,000 gallons a month.<sup>10</sup>

With the British government's entrance into the Persian oil scene, it was possible to construct a second ten-inch line which was started in 1914 but was not finished until 1917 because of lack of materials and the harassment of company holdings by rebellious tribes. The new line increased the flow into the refinery to about 35,000,000 gallons a month. The original six-inch line was replaced by a ten-inch line in 1919 with three pumping stations being installed at Mullasani, Kut Abdulla, and Dorquain. Another twelve-inch line was completed in 1922 which increased the combined flow to 5,000,000 tons a year.<sup>11</sup>

While an enormous quantity of oil was being produced at the Masjid-i-Sulaiman field, Anglo-Persian geologists continued to investigate the surrounding area. In 1928 a new field, Haft Kel, was developed some fifty miles to the south-southeast.<sup>12</sup> A sixty-one-mile-long, twelve-inch gravity pipeline was built to Kut Abdulla where it joined the older lines sixty-seven miles north of Abadan.<sup>13</sup> Haft Kel was contributing 2,000,000 tons of oil a year to the company's 7,537,372 tons by 1934.<sup>14</sup>

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<sup>10</sup>A. M. Bouillon, "British Claims to Persian Oil," Current History, March, 1933, p. 665. See map, page 50.

<sup>11</sup>Ibid.

<sup>12</sup>"A Short History of the Anglo-Iranian Oil Company," op. cit., p. 4.

<sup>13</sup>Bouillon, loc. cit., p. 665.

<sup>14</sup>"A Short History of the Anglo-Iranian Oil Company," op. cit., p. 4.



The early 1920's saw an expansion of other Anglo-Persian facilities along with pipeline development. During the years 1921-23, its capital expenditure was approximately 30,000,000 pounds. New share issues, earnings, and reserves made up this sum which was used in extension of the Abadan refinery, to build fuel oil bunkering stations in the world's chief ports, to improve the company's marketing facilities, and to increase the fleet of its subsidiary, the British Tanker Company, which distributed the products from Abadan throughout the world.<sup>15</sup>

Despite the tremendous flow of oil being pumped from the Masjid-i-Sulaiman field, no dividends were paid to Anglo-Persian stockholders until 1916.<sup>16</sup> This also meant that no royalty payments were channeled into the Persian treasury since the original D'Arcy concession called for a payment of sixteen percent of the annual profit. This caused considerable resentment among the Persians as we shall see later and, furthermore, Persia charged in 1932 that the Persian government received no share from 1916, when profit distribution was begun, until 1920. The Persians contended that the Anglo-Iranian Company claimed 400,000 pounds damages for the pipelines which were cut in 1915 and tried to obtain the claimed damages by debiting the Iranian account.<sup>17</sup> This claim is

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<sup>15</sup>Ibid.

<sup>16</sup>A. T. Wilson, "Persia and the Oil Dispute," Nineteenth Century, January, 1933, p. 29.

<sup>17</sup>A Short Historical Account of the Iranian Oil Question and Its Recent Developments (Iranian Government Publication), p. 2.



not substantiated by A. T. Wilson, in his article, "Persia and the Oil Dispute", who lists a total royalty payment to the Persian government of 1,326,000 pounds for the period from 1913-19.<sup>18</sup>

Dividends to the company's stockholders ranged from a low of six percent in 1917 to twenty percent in 1920, 1921, 1922, and 1930.<sup>19</sup>

Royalty payments to the Persian government during this period totalled 11,750,000 pounds sterling but did not follow the same scale as did the dividends. From 1913-19, Wilson lists royalties totalling 1,326,000 pounds. From a 470,000-pound payment in 1920, royalties rose to 1,000,000 in 1926 to total 4,476,000 pounds during that six-year period. Payments from 1927-33 were listed at 5,500,000 pounds.<sup>20</sup>

The following oil tonnages figures during that period disclose a steadily increasing total: 1918, 1,106,415 tons; 1922-23, 2,900,000 tons; 1927, 4,800,000 tons; and 1930, 5,900,000 tons.<sup>21</sup>

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<sup>18</sup>Wilson, *loc. cit.*, A complete listing of ordinary share dividends from 1917-32 is:

<u>Year</u>	<u>Percent</u>
1917.....	6
1918.....	8
1919.....	10
1920.....	20
1921.....	20
1922.....	20
1923.....	10
1924.....	10
1925.....	12½
1926.....	12½
1927.....	12½
1928.....	7½
1929.....	12½
1930.....	20
1931.....	15
1932.....	10

<sup>19</sup>*Ibid.*

<sup>20</sup>*Ibid.*

<sup>21</sup>Fischer, *loc. cit.*, Year-by-year figures were not available from the Anglo-Iranian Oil Company.

Even though production figures steadily rose, the 1931 payments to the Persian government dropped to 300,000 pounds as compared to an average of more than 1,000,000 for each of the previous five years. The Anglo-Persian Company explained that the reduced royalty payment was caused by falling profits in the highly competitive world market, but the Persians naturally were dissatisfied. It was a bad time for Persia to experience a drop in its expected income. It was suffering from many economic difficulties. Half of its trade had been one-sided bargains with the Soviets to the north. European export trade had declined partly because of high tariffs and exchange restrictions but chiefly because Persian exports of dried fruit, nuts, and rugs had not kept pace with other countries.<sup>22</sup>

Royalties under the original agreement, as previously indicated,<sup>23</sup> were based on the net profits of the producing company in Persia and not on the gross selling value of the company's oil. A British Information Service Bulletin quotes the December 3, 1932, Economist to show the scale of the royalties and give some indication of their fluctuations:

	Trading Profit (pounds)	Royalty (pounds)	Total Net Profits after Tax and Depreciation but before Debenture Interest (pounds)
1929	7,355,417	1,161,589	5,034,014
1930	6,542,189	1,014,595	3,842,837
1931	3,211,661	134,750	1,988,523 <sup>24</sup>

<sup>22</sup>Wilson, loc. cit., p. 29.

<sup>23</sup>Supra., p. 10.

<sup>24</sup>Anglo-Iranian Oil Company--Some Background Notes ID 1059  
(London: British Information Service, May, 1951), p. 3.

These difficulties were further aggravated when Britain left the gold standard with the result that a London reserve of 4,000,000 pounds sterling, held by Persia as a preliminary basis for establishing a currency system on the gold standard, was depreciated.<sup>25</sup>

Still another item of friction arose during the period when the German Junkers Company was given permission to open regular air service to Baku, Teheran, Ispahan, and Budshire in February, 1927. Britain soon began to press for airline rights. Persia denied a request to establish airdromes at Bushir and Jask under British control,<sup>26</sup> but did sign an agreement in 1928 with the British Imperial Airways permitting it to establish regular flights along the Gulf coast to Karachi, India.

At the same time oil was being developed in southern Persia, the northern area attracted the attention of Russian and American oil interests. Russia especially became alarmed at the increasing British oil developments in Persia. It may be recalled that the treaty between Russia and Persia on February 26, 1921, provided for renunciation of all former Russian concessions in Persia with the stipulation that these concessions would not be granted by Persia to a third party.<sup>27</sup> The only concession to which this treaty applied was one granted March 12, 1916, to Akakiy Mefodie-vitch Khostaria, a Russian subject, in which he received a concession to exploit "rock oil and natural gas" in Persia's five north-

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<sup>25</sup>Wilson, loc. cit., p. 29.

<sup>26</sup>"Anglo-Persian Relations," loc. cit., p. 199.

<sup>27</sup>Supra., p. 19-20.

ern provinces of Azerbaijan, Gilan, Mazandaran, Astarbad, and Khusasan.<sup>28</sup> An earlier grant in 1896 by Shah Mozaffar ed-Din was the basis of the concession.<sup>29</sup> Because of the war it never was developed. The applicability of the 1921 treaty to this concession also could be questioned on the ground that the Persian government ruled Khostaria's concession invalid in 1917 when the Czar's government fell. However, apparently this was of little concern to Khostaria who sold his concession claims to the Anglo-Persian Oil Company for 100,000 pounds on May 8, 1920.<sup>30</sup> This prompted the creation of the North Persian Oil Company, a branch of the Anglo-Persian.

Britain's efforts to penetrate the northern area were resisted not only by Russian and Persian interests, but by two American companies, Standard Oil Company and Sinclair Consolidated Oil Corporation. Both companies hoped to gain northern concessions. Consequently, the Persian government refused to recognize the concession for three reasons. They were, that the 1896 claim was not valid because it was granted by the Qajar dynasty whose acts were not binding on the present government; that the 1916 concession was not valid because it was never ratified by the parliament; and the Soviet-Persian Treaty of 1921 annulled all concessions previously granted to the Russian government or its subjects. Contributing factors also were Persia's fear of Britain coming into

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<sup>28</sup>Fischer, loc. cit., p. 712.

<sup>29</sup>George Lenczowski, Russia and the West in Iran (Ithaca: Cornell University Press, 1949), p. 82.

<sup>30</sup>Fischer, loc. cit., p. 712.



possession of all its natural wealth and the desire to grant a concession to a country which was less liable to threaten its sovereignty.<sup>31</sup>

With the Anglo-Persian Company temporarily out of the picture, the path was cleared for the Standard Oil Company's entrance into the stormy Persian oil scene. Morgan Shuster, former American financial adviser to Persia, served as intermediary. An authorization to grant a fifty-year concession to Standard was given by the Majlis November 22, 1921, in which the Persian government would receive fifty percent of the oil produced without any expenses being deducted. The concession's details still had to be worked out between the government and the company and ratified by the parliament. It was agreed that the concession could not be ceded to any third party, nor could a third party purchase shares without the approval of the Majlis. A violation would call for automatic cancellation.<sup>32</sup>

Russia and Britain immediately launched protests against the agreement with Standard. Sharp notes were exchanged between London and Washington with a resulting compromise late in 1921. Standard was to obtain a share of the oil produced in Iraq and Palestine, since Great Britain had occupied the Holy Land, and Anglo-Persia was to receive a share of Standard's concession profits in North Persia. This agreement never got past the conference tables because Russia, fearing British influence in that region, demanded annulment of Standard's concession, arguing that the 1921 treaty

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<sup>31</sup>Lenczowski, *op. cit.*, p. 82.

<sup>32</sup>*Ibid.*



required that none of the pre-revolutionary concessions which Russia returned to Persia were to be re-granted without Russia's consent. As a result, the Persian government broke off negotiations with Standard Oil and the Anglo-Persian Company.<sup>33</sup>

Because of financial difficulties, the Persian government still pressed its attempts to grant a concession for exploitation of North Persian oil. The next company to arrive on the scene was the American Sinclair Consolidated Oil Corporation. Persia hoped that Russia would agree to Sinclair holding the concession because, at the time, Sinclair held the oil concession on Russia's Sakhalin Island and the right to sell Soviet oil products in world markets. The Majlis authorized a bill empowering the government to grant Sinclair a concession in June, 1923.<sup>34</sup>

However, Persia's hopes again were blocked. The Sinclair company fell out of favor with Russia and its Sakhalin concession was annulled along with its sales agency for Soviet oil products. Events in Teheran, the Persian capital, also blocked the plan. A fire broke out in the parliament building the same day the Majlis authorized the concession, with the setting of the fire being termed intentional. The American vice-consul in Teheran also was murdered at the same time. A strong suspicion existed that both acts were connected with the oil question. Consequently, Sinclair representatives left the country in 1924 after informing the government that Russia's attitude prohibited further negotiations. The only other attempt during the interwar period to tap north Persia's resources

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<sup>33</sup>Ibid., p. 83.

<sup>34</sup>Ibid., p. 84.

was in 1937 when a concession was granted to the Amiranian Oil Company (owned by the Seaboard Oil Company of Delaware) but was cancelled a year later by the company because of financial reasons.<sup>35</sup>

Whether Russian agents had a hand in either the burning of the parliament building or the vice-consul's murder was never established. But it was evident that Russian pressure was being exerted at Teheran.

Theodore A. Rothstein, an English-educated Russian, who had at one time been a staff member of the influential Manchester Guardian, was Soviet Russia's first ambassador to Teheran. The personable Russian soon became a favorite in the Persian capital after his arrival in 1921 when he opened Atabak Park, at the Soviet Embassy, to visitors every Friday--the Moslem Sabbath. Thousands streamed to the park Gardens and Rothstein became immensely popular by mingling with the visitors and engaging them in conversation. Rothstein soon began twisting the British lion's tail. Louis Fischer, in the February, 1925, Current History, detected his hand in the dismissal of British instructors from the Persian army soon after his arrival in Teheran. A few months later the British were forced to withdraw their troops from southern Persia.<sup>36</sup>

Hanighen and Zischka, in their book, "The Secret War for Oil", refer to the activities of an ace Red agent, Einhorn, who went to Teheran with a fake passport. His chief mission was to cultivate the friendship of Reza Khan, who assumed royal and dictatorial powers in 1925.<sup>37</sup> The authors tell of Einhorn's visit with a high

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<sup>35</sup>Ibid., p. 84-85.

<sup>36</sup>Fischer, loc. cit., p. 710.

<sup>37</sup>Frank C. Hanighen and Anton Zischka, The Secret War--The War for Oil (London: George Routledge and Sons., Ltd., 1935), p. 165.

official of the Anglo-Persian Company at Absdan the day before Persia's cancellation of the company's oil concession. During the conversation Einhorn is said to have asked the company official if he had "yet larned the grsat news" but would not expand the statement. The next day (November 27, 1932) the company was informed that its drilling rights were revoked.<sup>38</sup>

The exact motivsting factor in the decision to cancel the Anglo-Persian concession is cloudsd by a sseries of charges and counter-charges issued by both governments. The British government asserted that Persia did not have the right to void the concession. However, some writers hailed the cancellstion as the rrsult of a nsw spirit of indspendence which arose in Persia, intensified by the personality and progressive ideas of Reza Khan.

However, the official viewpoint of the Parsian (Iranian) government in 1951 was that the 1932 action was instigated by the oil company in order to prolong its period of exploration which, under the original D'Arcy concession, would have expired in 1961. In a tslegram to the President of the Internatnional Court of Justice at The Hague, on June 29, 1951, M. B. Kazemi, minister of forsign affairs at Teheran, assartsd the British attempts to influence Parsian parlismetary elctions. This did not prove satisfactory, Kazemi charged, so Britain "opsnly intervned" in the gsnral slections. He continued:

The prsliminary steps thus tsksn, the company put up s false front to show that the Iranian Government itself had volunteered to cancel the original contract; and the subsequent stsp was the extension of the said document...during the cours of years, the company, be-

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<sup>38</sup>Ibid., p. 200.

cause of its deviations from the terms of the original contract, had brought about complaints by the Iranian Government. This artificial tension reached its climax in the year 1931 when through the international curtailment of the oil output and account falsifications the Iranian royalties were reduced to one fourth of what they had been in the previous year. The only road open to the two contracting parties, was to appoint their arbitrators to settle their differences; and in case of failure on the part of the company to appoint its arbitrator, the Iranian Government had the right to repeal the contract. But this step was not taken; and through the inactivity of the company, the Iranian Government resorted to the cancellation of the contract; while it should have referred the case to arbitration in accordance with the terms of the contract.<sup>39</sup>

If the cancellation was British-inspired, as Kazemi charged, it met with approval from the Persian man-on-the-street. A 1932 issue of The Literary Digest reported rejoicing in Teheran over the cancellation. Press dispatches from Teheran were quoted as saying the police had ordered increased illumination of shops to prevent looting under cover of the turmoil in the streets. Caravans of motor cars filled with singing persons filled the streets. Theatre doors were thrown open to the public. The news of the annulment was received with equal joy in other Persian cities, the Digest related. The magazine also quoted the newspaper Iran in Persia which asked:

Why was the D'Arcy concession granted? First, because of ignorance; secondly, because of selfishness, love of self-interest; thirdly, because of disregard for national and social interests... These

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<sup>39</sup> Taken from the copy of a telegram from the Minister of Foreign Affairs at Teheran, M. B. Kazemi, to the President of the International Court of Justice, c/o Imperial Legation of Iran, The Hague, June 29, 1951.



are the three foundations on which the company's colossal building was erected...through which millions in wealth were accumulated while individuals of the very country from which torrents of gold flowed cryingly need its wealth and resources.<sup>40</sup>

The original note of cancellation to the British government referred to recent discussions with Anglo-Persian officials which made the Persian government lose hope of modifying the agreement. It expressed willingness "in principle" to grant a new concession should Anglo-Persian be willing to safeguard Persia's interests.<sup>41</sup>

Anglo-Persia's immediate reply was a denial that the concession did not protect Persia's interest. It contended that the Persian government did not have the right to cancel the concession granted by successive Persian governments and claimed it always had sought to meet the views and needs of the Persian government and that failure to reach a friendly agreement was not its fault. The note was followed by a letter presented by the British minister at Teheran to the Persian minister for foreign affairs. Its contents described the cancellation as an "inadmissible breach" of the agreement's terms. Immediate withdrawal of the notification was demanded along with the inference that, while it was hoped the Persian government would strenuously try for friendly settlement, the British government would not hesitate to take all legal measures to protect its interests and would not tolerate any damage or interference with the oil company in Persia.<sup>42</sup>

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<sup>40</sup>"The Anglo-Persian Oil Flare-up," Literary Digest, December 24, 1932, p. 10.

<sup>41</sup>Wilson, loc. cit., p. 24.

<sup>42</sup>Ibid.



Persia's reply to the British note and letter contained three salient features, that it did not claim the company had violated any terms of the 1901 concession; a reiteration that the concession was not in accord with Persia's best interests and that cancellation was justified; and a disclaiming of all responsibility for damage after cancellation and that it was willing to negotiate for a new concession.<sup>43</sup>

The series of notes continued with Britain's declaration that it was unable to admit the validity of a unilateral cancellation which it described as a "confiscatory measure and a clear breach of international law." The note continued that if the notification of cancellation was not withdrawn by December 15, Great Britain would refer the dispute to the Permanent Court of International Justice at The Hague as a matter of urgency "with a request to that court to indicate under Article 41 of the statute the provisional measures which ought to be taken to safeguard its rights." The note concluded with a further warning that the Persian government would be held responsible for damage or interference to the company's business, or any failure to afford it adequate protection.<sup>44</sup> Britain felt it was entitled to take all such steps for Anglo-Persian protection as the situation might warrant should damage occur.

The second round of the struggle was opened by the Persian government in a note in which it refused to admit that a dispute

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<sup>43</sup>Ibid.

<sup>44</sup>Ibid., p. 26.

between it and a commercial company could be adjudicated by the Hague Court. The note indicated Persia's refusal to admit contingent liability for damage to the oil company and said it could not start negotiations with Anglo-Persia because of the British government's threatening action in bringing the problem to the notice of the Council of the League of Nations. At the same time nine reasons for cancellation were advanced. They were:

1. The original concession was obtained under pressure.
2. The amount of royalty paid had been unfairly calculated.
3. The Persians were not permitted to check the accounts.
4. Royalty was not paid during the war.
5. The company refused to pay income tax.
6. The company spent money in other parts of the world to the detriment of Persian interests.
7. The cost of refined products in Persia was excessive.
8. The company had not developed the Persian oil field fully, while fields outside Persia had been developed.
9. The company refused to send a representative to negotiate the previous summer.<sup>45</sup>

Commenting on the latest Persian note which included the nine reasons for cancellation, A. T. Wilson asserted in a January, 1933, issue of The Nineteenth Century, that Persia's claim that a dispute between it and a commercial company was not justifiable, was "without foundation."<sup>46</sup> He also attempted to advance Britain's

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<sup>45</sup> Ibid.

<sup>46</sup> Ibid.

answer to the nine reasons.

Items 2, 3, and 4 were fully dealt with in 1920 in a settlement concluded with the company by the financial adviser to the Persian government, which accepted a round sum of 1,000,000 pounds in respect of certain claims. The manner of calculation of royalty was settled and the accounts are checked by a British firm of auditors employed by the Persian government for the purpose.

Item 5 is a question of interpretation of the original concession and a proper subject for arbitration thereunder, or for amicable settlement.

Items 6 and 8 involve large questions of policy which deserve to be explored; the oil business is international in scope. To secure a market for Persian petroleum products in competition with the great oil fields of America, Russia, Netherlands East Indies, and Burma involves participation and expenditure in many enterprises beyond borders of Persia. Such matters could be discussed with the company but afford no grounds for cancellation.

Item 7 carries no weight in Persian mercantile circles. A great mountain range shuts off Persia from the Persian oilfield and makes it difficult to market the products of Abadan on the plateau in competition with the oil of Baku (southern Russia). Yet since the company started to market oil in North Persia, prices have fallen and there has been no attempt by Russia to create a corner in petrol in emergencies.<sup>47</sup>

In backing up their charges concerning reduced royalties in 1931 and 1932, the Persians cited the fact that the Iraq Petroleum Company (an international concern closely related to the Anglo-Persian company and of which its chairman, Sir John Cadman, also was chairman) had paid Iraq 400,000 pounds in 1931 for royalties, even though no oil was being exported. The Persians compared this to the 300,000 pounds offered them in 1931. It further was

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<sup>47</sup> Ibid., p. 27.

charged that the company's income tax payment for 1931 to the British government of 800,000 pounds was two and one-half times more than the royalty received by Persia.<sup>48</sup>

Britain's complete case, as presented in January, 1933, to the Council of the League of Nations, can be summed up as follows: (1) The D'Arcy concession and contract with the Anglo-Persian Oil Company were negotiated by private parties with Persia purely as a private commercial enterprise, and it was at first a very hazardous venture; (2) Great Britain became the controlling partner because of vital Empire interests and to keep the enterprise from falling into foreign hands; (3) all the obligations contracted by the company had been fulfilled; (4) there were no profits during the early years, therefore no royalties could be paid and development during the war had to be carried on at greatly increased cost amid the uncertainties and risks of warfare; (5) several hundred miles of roads constructed by the company were used as public highways by the Persians and taxed by the Persian government; (6) approximately 25,000 Persians were employed by the company in Abadan refinery and the oilfields and vast sums of money were spent in Persia; (7) benefits to the people included hospitals, schools, recreation clubs, water, sanitation and light services, dwellings for Persian and foreign employes; (8) the cancellation disregarded formal agreements signed by both parties, containing no provision for annulment by either side; and (10) recent decrease in net

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<sup>48</sup>Kenneth Williams, "The Persian Oil Dispute," Fortnightly Review, February, 1933, p. 181.



revenue was due to the universal business depression, which had lowered prices, curtailed demand and brought aggressive competition into world markets everywhere.<sup>49</sup>

The Council of the League of Nations was faced with the oil dispute January 26, 1933, when it was forwarded for debate by Sir John Simon, British foreign minister, and Mirza Ali Akbar Khan Davar, Persian minister of justice. Simon's main point was that the instrument of cancellation was invalid and negotiations could not proceed until Persia had withdrawn it. The Persian minister denied the Council's right to consider the question and added that Great Britain had taken a similar stand in 1931 in a shipping dispute with Finland. Davar contended that the Anglo-Persian Company had not exhausted the possibilities for redress offered by Persian courts. Simon argued that it would be useless to appeal to Persian courts because the Persian parliament, in confirming the government's action in cancelling the concession, had enacted a law which bound Persian courts to sustain that action. To this Davar replied that the Persian parliament president said that a vote of confirmation was merely a vote of confidence and that the action of the Persian court was not prejudiced.<sup>50</sup>

The Council made no decision or ruling on the matter, but instead appointed Dr. Edward Benes, then Czechoslovakian foreign minister, as mediator. Through him the company and the Persian

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<sup>49</sup>Bouillon, *loc. cit.*, p. 656-66.

<sup>50</sup>"The Anglo-Persian Oil Dispute," Current History, February, 1933, p. 763.



government, with the approval of the League, entered into direct negotiations.

The new agreement, concluded April 39, 1933, and shortly thereafter approved by the Majlis and the Shsh, was a compromise. The most important part, and the one to which the Persians were to later object the most strenuously, was the clause which prolonged the concession for a further period of thirty-two years-- or to 1993. The controversial "sixteen percent of the net profits" was dropped and a royalty based on oil tonnage exported from, or sold in, Persia was adopted with the royalty payment being set at four shillings (gold) per ton. A smaller sum was to be paid on every ton exported or sold as an exemption from Persian taxation. In addition, twenty percent of the dividends in excess of 671,000 pounds distributed to stockholders would go to the Persian government. Other features of the new concession were the reduction in area to 100,000 square miles instead of the 480,000 square miles of foreign personnel in Persia by Persians; the agreement by the Anglo-Persian Oil Company to spend 10,000 pounds annually educating Persians in Britain; and the guarantee that the company would not transfer the concession to another party without the consent of the Persian government.<sup>51</sup>

With this new agreement, the Persians were supposedly protected financially through the new royalty basis, while the right

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<sup>51</sup> See Appendix A for the complete terms of the new concession. Lenczowski refers to a clause stipulating that the sum of all dues to the Persian government was not to be lower than 1,050,000 pounds sterling a year. However, the author was unable to find this point in any material submitted by the British or Iranian embassies or the Anglo-Iranian Oil Company.

to participate in profits was thought to provide for increased revenues in good years. Compared with the previous concession, the new agreement gave Persia so many more benefits that it justly could be called a victory for Reza Khan's bold foreign policy and an assertion of Persian independence from foreign imperialism.

Later chapters will show, however, that the new concession was doomed to failure. The spirit of nationalism in Persia had been aroused and would not be satisfied until complete control was gained of its oil treasures.

## CHAPTER IV

### PROBLEMS OF THE NEW AGREEMENT: WORLD WAR II

Persia officially changed its name to Iran on March 21, 1935. For clarity, the author will refer to that country by its new name for the remainder of this thesis. Since the oil company changed its name concurrently, it now will be referred to as the Anglo-Iranian Oil Company.

The significance of the 1933 agreement between Iran and the Anglo-Iranian Oil Company was that for once in its modern history, that ancient country had gained the initiative over a foreign power. Even though the Iranians later were to charge that the 1932 cancellation was British inspired and that the 1933 agreement was the result of British coercion, the fact still remains that Iran gained a much better treaty. The concession area was materially reduced and provisions were made for an increased income to the Iranian national treasury.

Great Britain felt so secure with its new treaty that the government-controlled oil company began immediate expansion of its facilities. New wells were brought in and new fields were developed. The capacity of the Abadan installation was greatly expanded and another refinery eventually was built at Kermanshah to the north. An extensive program of housing, improvement of health facilities, education, transportation, and recreation also was developed by the oil company which felt secure with its concession extended to 1933.

The most spectacular phase of Anglo-Iranian's activities in

Iran was in the drilling of new wells and the development of additional fields. From a production of 7,537,372 tons in 1934 when Maejid-i-Sulaiman and Haft Kel were the only producing fields, oil was gushing from Iran's arid soil at the rate of 31,750,147 tons<sup>1</sup> by 1950 from four major fields and three smaller locations. This naturally meant more profit for the Iranians with 16,031,735 pounds being paid them in royalties in 1950<sup>2</sup> compared to 1,525,383 pounds in 1932 under the old agreement.<sup>3</sup>

Although Maejid-i-Sulaiman and Haft Kel still are capable of producing large amounts of oil, they gradually became secondary in importance to other fields developed after the signing of the new agreement. The next step came in 1936 with the development of the small Naft-i-Shah field some 300 miles northwest of the head of the Persian Gulf where operations were carried out by an Anglo-Iranian subsidiary, the Kermanshah Petroleum Company, Ltd. Some 945,135 tons of refined products were sold by the Kermanshah subsidiary in Iran through its 144 distribution centers in 1950.<sup>4</sup>

The oil development scene was shifted to Naft Safid (White Oil) twenty miles south of Maejid-i-Sulaiman in 1939. By 1950, seven wells were producing 1,210,000 tons with 1,400 employees oper-

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<sup>1</sup>The Anglo-Iranian Oil Company and Iran (Pamphlet Published by the Anglo-Iranian Oil Company, Ltd., July, 1951), p. 2.

<sup>2</sup>The Wall Street Journal, November 30, 1951, p. 8.

<sup>3</sup>Supra., p. 25. Also see Appendix B.

<sup>4</sup>The Anglo-Iranian Oil Company and Iran, loc. cit., p. 2; A Short History of the Anglo-Iranian Oil Company (Pamphlet Published by the Anglo-Iranian Oil Company, Ltd., May, 1951), p. 4; A.I.O.C. Operations in Iran (Pamphlet Published by the Anglo-Iranian Oil Company, Ltd., October, 1951), p. 4.



ating the installations.<sup>5</sup>

The next in the chain of Anglo-Iranian-developed oil fields was Gach Saran, the southernmost of the fields, which is located 125 miles southeast of Haft-Kel. Operations started there in 1940 with sixteen wells being sunk. Four of Gach Saran's wells produced 2,060,000 tons of crude oil in 1950 with 750 persons, five of them Britishers, being employed.<sup>6</sup>

Haft-Kel, which replaced Masjid-i-Sulaiman as the major Anglo-Iranian oil-producing field in 1936, in turn gave way to a new field, Agha Jari, which was opened in 1943 and by 1950 had become the country's largest producing area. Located some twenty-five miles south of Haft-Kel, Agha Jari produced 15,620,000 tons of crude oil in 1950--almost half of the entire country's output. This new production giant was connected with the port of Bandar Mashur, sixty miles east of Abadan, by a twenty-inch pipeline. From there the oil was carried by a tanker fleet either to Abadan or other Anglo-Iranian refineries for processing. The Agha Jari field used 5,977 employees, including 175 Britishers, in 1950, to operate its sixteen wells, the hospital containing fifty-six beds, three clinics, and a company-owned brickyard.<sup>7</sup>

Anglo-Iranian's other producing field in Iran was at Lal, fifty miles north of Masjid-i-Sulaiman, which came into production in 1945. In 1950, four of the fifteen wells drilled there produced

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<sup>5</sup>A.I.O.C. Operations in Iran, loc. cit., p. 3.

<sup>6</sup>Ibid.

<sup>7</sup>Ibid.; The Anglo-Iranian Oil Company and Iran, loc. cit., p.

730,000 tons. To run the field, 1,778 employees were needed, including forty-five British staff.<sup>8</sup>

Prior to Iran's cancellation of the concession and its decision to nationalize its oil industry in May, 1951, Anglo-Iranian Oil Company's wells were producing some 700,000 barrels of crude oil a day from seventy-seven wells which were being operated at full capacity. The 1,988 miles of pipeline, of which 270 miles were added during 1950, channeled the crude oil into the giant Abadan refinery which had a daily output of 540,000 barrels. Of the oil produced in Iran, 40.6 percent of it went to the United Kingdom, 18.5 percent to Europe, 13.5 to the Far East, 12.4 to Africa, 7.6 to the Near East, and 7.4 to miscellaneous outlets.<sup>9</sup>

To man its tremendous industry, the Anglo-Iranian Oil Company employed approximately 61,740 persons in 1950. This included 57,237 Iranians, 2,725 British, and 1,778 other foreigners.<sup>10</sup>

The most impressive of the Anglo-Iranian operations was the gigantic refinery on the Island of Abadan which in 1950 was the world's largest. Its annual capacity of 25,000,000 tons was more than five times greater than the next two Anglo-Iranian refineries in size--those located at Haifa, Palestine, and Llandarcy, Wales.<sup>11</sup> The company employed 30,000 workers on the island in 1950 with 4,000 being directly concerned with oil and its refine-

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<sup>8</sup>A.I.O.C. Operations in Iran, loc. cit., p. 3; The Anglo-Iranian Oil Company and Iran, loc. cit., p. 2.

<sup>9</sup>"225 Million Barrels a Year," New York Times Magazine, June 3, 1951, p. 37.

<sup>10</sup>Ibid. See page 48.

<sup>11</sup>The Anglo-Iranian Oil Company and Iran, loc. cit., p. 3.

ments.<sup>12</sup> Besidee its regular refining equipment, Anglo-Iranian was operating a catalytic polymerization installation capable of handling about 15,000,000 cubic feet of refinery gases daily and a hydrogenation plant for production of iso-octane gas.<sup>13</sup> After the refining processes, the oil was picked up at Abadan by ships of the British Tanker Company, Ltd., an Anglo-Iranian-owned subsidiary which had 152 ships in 1950. From the sixteen oil jetties and three general cargo jetties at Abadan, the oil tankers picked up 1,899 cargoes totalling 21,000,000 tons for destinations throughout the world in 1950.<sup>14</sup>

In contrast to the arid, unproductive terrain around Abadan, the island's salt-soaked acres were kept green by irrigation. Every house had its own water supply with some 11,500 of the company's employees living in company accommodations on the island. The company had its own dairy farm stocked with 200 head of cattle. Anglo-Iranian was to have built a new power station which would have raised Abadan's generating capacity to 144,000 kilowatts.<sup>15</sup>

Under the 1933 agreement, the oil company agreed to provide health facilities for its employees and went even further in constructing modern housing for them including a large number of Iranian nationals, education has been furthered, food and clothing

<sup>12</sup> New York Times Magazine, June 8, 1951, p. 29.

<sup>13</sup> David D. Levin, Dons in Oil (New York: The Ranger Press, Inc., 1924), p. 256.

<sup>14</sup> A.I.O.C. Operations in Iran, loc. cit., p. 2.

<sup>15</sup> Ibid.

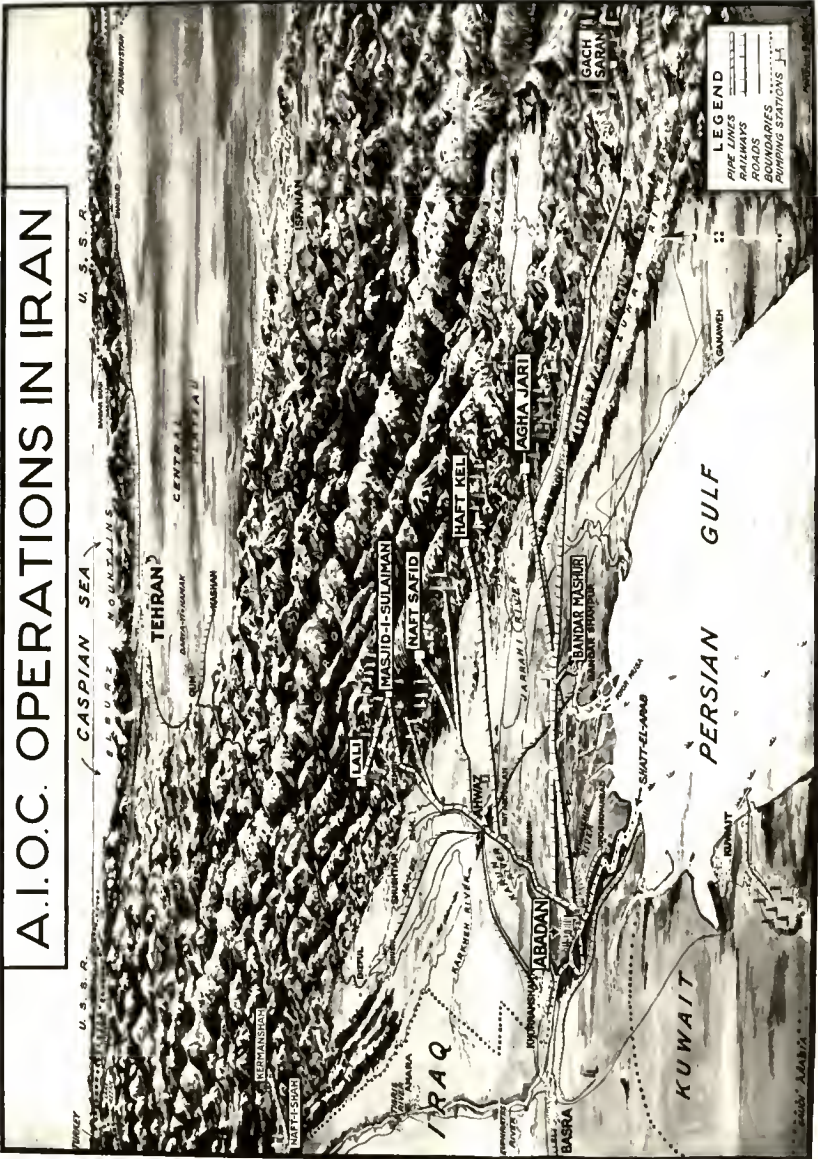
EXPLANATION OF PLATE I

This was the extent of Anglo-Iranian Oil Company installations in Iran in May, 1951, when Iran nationalized its oil industry.



PLATE I

# A.I.O.C. OPERATIONS IN IRAN



EXPLANATION OF PLATE II

Anglo-Iranian installations at Abadan refinery  
as of May, 1951, looking towards the southeast.

PLATE II



were provided in large quantities, and sport and recreation facilities were provided. Despite angry Iranian charges to the contrary, evidence exists that considerable money and effort were spent in improving work conditions.

The oil company especially was proud of its efforts in providing health and medical services. Anglo-Iranian's medical organization consisted of about 100 specialists and medical officers, ninety fully trained sisters and nurses and additional dressers, dispensers, laboratory assistants and health inspectors with fifty-seven percent of the staff being native Iranians. The company had provided 853 hospital beds in company areas with two fully-equipped hospitals being maintained at Abadan. Hospitals also were located at Maejid-i-Sulaiman and Agha Jari oilfields. More than 1,800 men were employed to collect and dispose of refuse, clean streets, and do general sanitary work. In 1950, 12,162 cases were admitted to Anglo-Iranian hospitals, of which 6,956 were employees and 5,206 were non-employees. In 1950, 1,530,815 dispensary attendances were recorded, of which 1,026,397 were non-employees.<sup>16</sup>

Conditions in Iran were investigated by the International Labor Office in 1950 and a portion of its report is quoted by J. F. A. Swanston in the August, 1951, issue of World Review. Regarding the company's medical and public health services, the Labor Office reported:

No one who visits the company's areas can fail to recognize the effort which the company has made in organizing its health and medical services. In addition to the usual safety, hygiene and first-aid

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<sup>16</sup>The Anglo-Iranian Oil Company and Iran, loc. cit., p. 7-8.



arrangements inside the plant, there are health services for the prevention of disease and medical services for the various forms of treatment. The preventive services include drainage, sewerage, the provision of pure drinking water, anti-malarial campaigns, inoculations and vaccination and the destruction of pests; while facilities for treatment include hospitals, dispensaries, and various kinds of clinics. ... A great strain is thrown upon the company's medical services by the fact that although they were designed primarily for the company's own employees, they were in fact used extensively by the workers' families and even by people who have no connection with the company.<sup>17</sup>

The June 8, 1951, issue of the New York Times Magazine observed that there was considerable bitterness in Iran among Anglo-Iranian workers because of poor housing conditions. Several families were said to be living in squalor under the same roof because of low wages and inadequate housing facilities.<sup>18</sup> This probably was true to some extent but one must remember that prior to discovery of oil in Iran, living conditions were primitive and poor. The initiative to effect an improvement, the enterprise, the materials themselves were lacking.

In forty years of operations in Iran, Anglo-Iranian reports the construction of 21,000 houses for its employees with 17,000 being for married men and the remainder for bachelors. Shops, stores, canteens, restaurants, schools, movie theaters, sport grounds, swimming pools, and clubs were built at Abadan. Similar facilities were built at the oil fields.<sup>19</sup> Most of the bricks

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<sup>17</sup>J. F. A. Swanston, "Persian Oil Dispute," World Review, August, 1951, p. 3.

<sup>18</sup>New York Times Magazine, loc. cit., p. 29.

<sup>19</sup>The Anglo-Iranian Oil Company and Iran, loc. cit., p. 5-6.

for the company's building program were made at Ahwaz, northeast of Abadan, which is the capital of Khuzistan province wherein lies most of the company's concession. The Ahwaz plant was a modern function which produced some 48,000,000 bricks a year.<sup>20</sup>

The Anglo-Iranian Oil Company recognized early that illiterate workers were a liability in an industry employing complicated machinery and consequently undertook an ambitious educational scheme. It built and equipped more than thirty schools and presented them to Iranian educational authorities. Some 20,000 pupils attended those schools. Teheran University was given modern laboratory equipment; postgraduate apprenticeship in the oil company were offered some 3,000 students taking advantage of them in 1950; classes for illiterates were organized with some 4,000 men attending each session; a technical institute was opened at Abadan in 1939 which gave training equivalent to a Teheran University degree; and more than eighty Iranian apprentices and students received training in British plants, technical colleges and universities at company expense. Eight percent of Anglo-Iranian's employees were literate in 1935. The company had hoped to have that raised to forty percent by 1955.<sup>21</sup>

Working conditions also were given a favorable report by the International Labor Office after its inspection in 1950. "The arrangements made by the Anglo-Iranian Oil Company for the recruitment of its workers seem to correspond closely with the needs and

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<sup>20</sup>A.I.O.C. Operations in Iran, loc. cit., p. 4.

<sup>21</sup>The Anglo-Iranian Oil Company and Iran, loc. cit., p. 10-12.

conditions of the country,"<sup>22</sup> the survey stated.

The minimum wage set by the Iranian government for workers at Anglo-Iranian installations was forty-two rials (eighty-five cents) daily, which was the highest in the country.<sup>23</sup> Company publications list the average wage earned at Abadan at about 470 rials per week with the average wage paid skilled workers being 570 rials. Less than one percent of company labor was said to be on the legal minimum wage rate. Night shift workers received an additional ten percent while normal overtime was straight time plus thirty-five percent.<sup>24</sup>

Workmen who were not housed in company accommodations were paid a special allowance with extra wages also being paid to those who worked under harsh or difficult conditions. Employees received full pay during holidays (twenty-four days in the year for annual leave and public holidays) and during illness. Working hours were forty-three and one-half during summer and forty-four and one-half during the cooler winter. Each worker was insured against industrial accidents and sickness and after serving a stipulated length of time, employees were retired with pensions.<sup>25</sup>

Point nine of the 1933 agreement<sup>26</sup> stated that the oil company would progressively replace its foreign employees with Iranians.

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<sup>22</sup>"Labour Conditions in the Oil Industry of Iran," International Labor Office Report, Geneva, 1951, p. 77.

<sup>23</sup>New York Times Magazine, loc. cit., p. 29.

<sup>24</sup>The Anglo-Iranian Oil Company and Iran, loc. cit., p. 13.

<sup>25</sup>Ibid., p. 14.

<sup>26</sup>See Appendix A.

Although this was done to a considerable extent, the Iranians were not satisfied with the progress made and listed this as one of the major reasons for the nationalization decision which will be discussed in the next chapter. The Iranians charged that foreign employees were increased from 1,800 in 1933 to 4,200 in 1948 without taking into partial consideration expanded company activities.

However, in 1950 the oil company stated that this clause had been respected with thirty-five Britishers and ten Iranians being employed in posts of greater authority that paid a salary of 4,500 pounds a year or more. Included among the Iranians were a legal adviser, sales manager, recruiting manager, assistant manager of general services, and labor superintendent. In the salary group of 1,000 pounds a year or more, the company listed 862 British and 126 Iranian employees. Altogether there were 941 Iranians holding responsible supervisory positions.<sup>27</sup> An Anglo-Iranian listing of its personnel in Iran in March, 1951, shows the following breakdown:

	Iranian	Non-Iranian	Total
Staff			
Senior.....	30	89	119
Other.....	5,492	3,534	9,026
Labor			
Top grads.....	17,550	896	18,446
Middle grade.....	12,225	1	12,226
Lower grads.....	4,411	0	4,411
Unskilled.....	13,925	0	13,925
Apprentices and Trainees.....	3,392	0	3,392
Contractor's Employeess.....	<u>13,603</u>	<u>0</u>	<u>13,603</u> <sup>28</sup>
Total	70,628	4,520	75,148

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<sup>27</sup> Anglo-Iranian Oil Company--Some Background Notes ID 1059  
(London: British Information Service, May, 1951), p. 3.

<sup>28</sup> Non-Iranian included British, Indian, and Pakistani.



The outbreak of World War II presented serious complications to the Anglo-Iranian Oil Company and the Iranian government. The oil-rich country was a hotbed of intrigue and espionage as Germany cast covetous eyes towards it, not only for the petroleum products its Wehrmacht was to need but also for the doorway it would present to south Russia and India. In the earlier stages of the war Iran was neutral. However, the influence of events elsewhere soon made itself felt in government circles, at the oil fields and at Abadan by a decline in production and refining. The entry of Italy into the war in 1940 all but closed the Mediterranean to shipping, and the overrunning of Europe by Hitler's armies brought about a tremendous loss of markets for the oil company.

Germany's invasion of Russia in June, 1941, brought things to a head. Beginning in July, British and Russian diplomatic missions in Teheran presented memoranda to the Iranian government demanding expulsion of a large number of suspected German agents and other Axis nationals. The notes were supplemented by a series of propaganda broadcasts in the Iranian language from London, Delhi, and Baku accusing the Iranians of sheltering fifth columnists.<sup>29</sup> The tension was climaxed on August 25, 1941, when British and Russian forces simultaneously invaded Iran.

The poorly equipped and disorganized Iranian army offered only token resistance and three days later the army was ordered to cease resistance. The invasion made Reza Shah's position on the throne untenable because of his earlier expressed friendliness towards Germany. The Shah bowed to increasingly hostile radio and

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<sup>29</sup>The Anglo-Iranian Oil Company and Iran, loc. cit., p. 4.

press sentiments both from British and Russian sources and Iranian who previously had not dared to criticize the Shah. Reza abdicated September 16 in favor of his son, Mohammed Reza Pahlavi, who was proclaimed Shah by the Majlis the same day. George Lenczowski, in his study of big power rivalry in Iran, "Russia and the West in Iran, 1918-1948," believes that Russian and British influence in clearing Reza from the scene was indicated when the two countries' military forces moved into Teheran the day after the new Shah was approved by the Majlis.<sup>30</sup>

To cement their position in Iran and to insure co-operation with the Iranian government, the two occupying countries agreed on the Tripartite Treaty, signed January 29, 1942, which was supposed to be effective indefinitely. Its main objective was to safeguard shipments of war provisions and lend-lease material to Russia. The Allies agreed to "respect Iran's territorial integrity and political independence and to grant economic assistance during and after the war."<sup>31</sup> The treaty also stated that troops would be withdrawn not later than six months after an armistice had suspended hostilities.

American troops entered Iran in 1942 in the form of some 30,000 members of the Persian Gulf Command which was assigned the task of building and reorganizing the Persian Gulf coast harbors and the Shatt-el-Arab, construction and repair of highways, air-

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<sup>30</sup>George Lenczowski, Russia and the West in Iran (Ithaca: Cornell University Press, 1949), p. 168.

<sup>31</sup>Hane Heymann, "Iranian Oil Concessions I and II," Fortnightly Review, September and October, 1949, p. 188.

port building, and operation of the Trans-Iranian Railway. In regard to the railroad, an agreement was reached between Russia and the United States so that Americans took care of the railway from the Persian Gulf to Teheran, while the Russians operated it from Teheran to Bandar Shah on the Caspian shore.

The war and the Allied invasion presented economic and political problems in Iran which still exist today. Even before the invasion the war's effect was noted on Iranian economy when the British government introduced the system of preclusive buying to keep goods from being shipped to Germany. The high prices paid by the British naturally started an inflationary spiral which was pushed even higher by the tremendous sums poured into the country by the Allies in rebuilding roads and ports, constructing new airfields, and extending the railroads. Communications broke down when all trucks and railroad cars were commandeered to ship supplies to Russia.<sup>32</sup>

On the political scene, considerable insecurity existed without the iron hand of Reza Shah on the throne. Tribesmen, armed by Axis agents, raided supply shipments and occasionally murdered Allied personnel. With the successful continuation of the war their main objective, the Allies took the easy course politically and played along with the old, corrupt, regime which was changed very little at first by Mohammed Reza Pahlavi. Consequently, the British dealt with Iranians whom they knew were not democratically inclined while the Russians also dealt with the worst specimens of

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<sup>32</sup>W. H. Mindle, "The Trouble Isn't Over in Iran," Harper's Magazine, February, 1946, p. 138-39.

Iranian corruption and absentee land lordism. In maintaining the status quo, the Allies allowed considerable disillusionment with western democracy to arise among the Iranian masses. The economic balance was tilted even farther in favor of the rich during the war. This gave communism and Soviet ideas, forwarded by the Tudeh (People's) Party, a foothold even though it remained underground until 1944.<sup>33</sup>

Effect of hostilities was even more apparent on the Anglo-Iranian Oil Company. The short-haul system was inaugurated when shipping became scarce (every shipping area had to draw its supplies from the nearest sources of production) and consequently, exports from Abadan to the United Kingdom were stopped in 1941. Production fell from 10,167,795 tons in 1938 to 9,583,286 in 1939 and dropped to 6,605,320 before starting an upward swing. The occupation of Dutch East Indies and Burma fields by the Japanese in 1941 created a new demand on Iran to fill the gap left by the loss of these two important oil centers. In 1942, the Allied offensives in North Africa created even more demands upon the Abadan refinery.<sup>34</sup>

Forsseeing a heavy demand for 100-octane aviation gasoline, the company set up a plant at Abadan for its production which began operation in 1940. By 1944 Abadan was producing it at the rate of 1,000,000 tons yearly and met most of the Royal Air Force and United States Army Air Force needs in the Middle East and Near East

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<sup>33</sup> Ibid., p. 140-41.

<sup>34</sup> A Short History of the Anglo-Iranian Oil Company, loc. cit., p. 6.



theatres of war.<sup>35</sup>

With the conquering of Sicily in July, 1943, by the Allies, the demand quickened for Anglo-Iranian oil and the result was a quick recovery from the 1941 depression. By 1944 production had reached 13,274,243 tons and this record easily was broken in 1945 with production reaching 16,839,490 tons.<sup>36</sup>

The company's actual losses in property and personnel were in shipping where its subsidiary organization, the British Tanker Company, lost more than thirty vessels through enemy action along with 664 officers and men killed or missing and 266 taken prisoner. In Iran the war caused a temporary disruption of social and welfare activities and the housing program.<sup>37</sup>

Oil, that international lubricant and irritant, was the direct cause for friction between the Allies during their occupation of Iran. It was touched off in the fall of 1943 when the British Shell Company began negotiations to obtain an oil concession in south Iran. Pressure for new concessions was increased early in 1944 when two American companies, Standard Vacuum Oil Company<sup>38</sup> and Sinclair Oil Company entered into negotiations with the Iranian government for concessions. At the same time, Iran employed two American petroleum geologists, Herbert Hoover, Jr., and A. A.

<sup>35</sup> Ibid.

<sup>36</sup> See Appendix B.

<sup>37</sup> A Short History of the Anglo-Iranian Oil Company, loc. cit., p. 7.

<sup>38</sup> Owned jointly by Standard Oil of New Jersey and Socony Vacuum Oil Company.

Curtice to survey oil reserves in various parts of the country.<sup>39</sup>

Not to be outdone, Russia made its bid in September, 1944, when Sergei Kavtaradze, vice-commissar for foreign affairs, headed a delagation of ninety-three technical and administrative experts which established headquarters in Teheran. It soon became known that the Russians were seeking a concession for complete mineral rights in the northern province of Semnan. Their arguments for a concession were based on the theory that Soviet cooperation in the exploration and development of north Iran was logical with the area being located close to Russia with excellent transportation facilities and a natural market.<sup>40</sup>

Russian negotiations for complete and extensive mineral rights overawed Iranian officials even though past concessions had included all mineral rights. They spoke of an "economic-political monopoly" sought by the Russians.<sup>41</sup> Consequently the Iranians saw two reasons for the Russian demands. One was that the real Soviet aim was to prevent the granting of concessions to the American companies; the second was that Russia really wanted oil and believed that while its troops were in possession of a portion of Iranian territory it was time to press for advantages.<sup>42</sup>

The Iranian government firmly shut the door in the oil seekers' faces October 16, 1944, when it rejected all offers for negotiations. Premier Sa'ed immediately was accused by the Russians of siding with the British and being against Soviet interests.

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<sup>39</sup>Lenczowski, op. cit., p. 216.

<sup>40</sup>Ibid.; Heymann, op. cit., p. 245-46.

<sup>41</sup>Heymann, op. cit., p. 246.

<sup>42</sup>Lenczowski, op. cit., p. 217-18.

Consequently, the premier listed the following four reasons for the refusal: (1) The presence of foreign troops in Iran; (2) the uncertain economic situation due to the war; (3) the fact that some questions remained unsolved during the recent Anglo-American oil conference in Washington; and (4) advice from Iranian diplomatic representatives abroad not to grant concessions.<sup>43</sup>

A new wave of anti-government feeling swept over the north of Iran following the decision not to offer new oil concessions. The leading element in the anti-government agitation was the Tudeh party, which became an active and noisy element in Iranian politics in 1944. Premier Sa'ed bowed to the pressure and resigned November 8. After a two-week interval, Morteza Quli Bayat was asked by the Shah to form a new cabinet. Working in an atmosphere of tension, the new government further closed the door to the Russians when it introduced a law that would make it a punishable crime for any cabinet minister enter into negotiations or to grant oil concessions to foreigners without previous approval by the parliament. The Majlis approved this law December 2, 1944.<sup>44</sup> Thus the first round of the wartime Iranian-Soviet duel, which in reality could be called a Soviet-Western controversy, was settled with Iran standing firm despite considerable pressure.

In accordance with the Tri-Partite Agreement of 1942, to which the United States also adhered, troop withdrawals began in 1945 after the cessation of hostilities. All United States troops

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<sup>43</sup>Journal de Teheran, October 30, 1944, as quoted by Lenczowski, op. cit., p. 220.

<sup>44</sup>Lenczowski, op. cit., p. 222.

had gone home before January 1, 1946, while British forces were withdrawn by the six-month deadline of March 1, 1946.

The March deadline for troop withdrawals passed and Russia made no move to withdraw. It immediately began to take advantage of the absence of western forces and began to interfere with Iranian politics. Soviet forces gave support to the communist seizure of power in the northwest, where the Autonomous Republic of Azerbaijan was declared on December 12, 1946. Iran made two appeals to the United Nations Security Council for support in removing the Russian troops before an agreement finally was reached with Russia for evacuation. The withdrawal probably was prompted more by the treaty Russia concluded with Iran rather than any pressure exerted by the United Nations.

The April 4, 1946, agreement between the two countries clearly showed the reason for prolongation of the Russian occupation and was interpreted as a Soviet victory. It contained the following provisions:

1. The Red Army was to be evacuated within one month and a half after March 24, 1946.
2. A joint stock Irano-Soviet oil company was to be established and ratified by the Fifteenth Majlis within seven months after March 24.
3. Since Azerbaijan was an internal Iranian problem, peaceful arrangements were to be made between the government and the people of Azerbaijan for the carrying out of improvements in accordance with existing laws and in benevolent spirit toward the people of



Azerbaijan.<sup>45</sup>

As we shall see later, the December 2, 1944, Iranian law prohibiting any oil agreements without the approval of the Majlis effectively blocked the formation of the Irano-Soviet oil agreement when on October 22, 1947, the governing body rejected the plan. However, settlement with Azerbaijan was in favor of the communists with the most important controversial points, land distribution, selection of the governor, armed forces, taxes, and parliamentary representation, being settled in favor of the Azerbaijan faction even though Teheran regained nominal authority over the province.<sup>46</sup>

Complete withdrawal of Soviet troops was effected by May 11, 1946. But even though it was free of foreign troops, Iran found little freedom from foreign intervention. Its peoples had been subjected to propaganda tactics from all three occupying powers. The enormous building program achieved by the Allies presented new prosperity to the country. The wealth and machinery brought into the country helped kindle the nationalistic feeling which was beginning to prevail among the people. Chapter five will present the results of the awakening experienced in the ancient land of Iran.

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<sup>45</sup>New York Times, December 3, 1944, p. 1 and 3.

<sup>46</sup>See Appendix E.

## CHAPTER V

### THE NATIONALIZATION OF THE OIL INDUSTRY IN IRAN

Iran was free of foreign troops by May of 1946 when the last Russian forces withdrew. With their going it was hoped that peace again had come to the country. But such was not to be the case. Unrest and resentment were growing in many parts of the country against both the British government and the Anglo-Iranian Oil Company. The communistic party, the Tudeh, showed few signs of slackening its activities despite the absence of its former protective Russian big brother.

The first serious outbreak of trouble was at Abadan refinery in July of 1946 when a serious strike started. The workers presented a sixteen-point program demanding better pay, housing, transportation, and hospitalization.<sup>1</sup> Martial law was proclaimed by the Iranian army. Clashes with the troops caused seventeen casualties among the strikers. The strike ended in a few days in a promise of increased wages and improved working conditions. Tudeh, with considerable membership among the refinery workers, took credit in its press for the concessions granted by the company.<sup>2</sup>

With the labor problem settled at Abadan, the scene then shifted to Teheran where the fifteenth Majlis began its session in August. The most pressing question facing the assemblage was

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<sup>1</sup>"Setback in Iran," Fortune, March, 1951, p. 165.

<sup>2</sup>Ibid.; Hans Heymann, "Iranian Oil Concessions I and II," Fortnightly, February, 1946, p. 249.

the ratification of the oil concession granted Russia while its troops still occupied the country. With the Democratic party holding a substantial majority of seats it was generally assumed that the agreement would be ratified. However, unexpected resistance against ratification began to make itself felt.

Great Britain failed to support the Iranian element seeking to deny Russia access to the northern oil deposits. British Ambassador Sir John Le Rougetel advised Premier Ahmad Qavam that the door should be kept open for future oil discussions with Russia. At the same time a British foreign office spokesman stated that Great Britain had no objection in principle to the Soviet Union obtaining an oil concession in Iran.<sup>3</sup> This apparent paradox should not be interpreted as a change in British policy toward Russia but instead as a British fear that rejection of Russia might eventually lead to the cancellation of the Anglo-Russian concession.

Probably the weight that swung the balance against Russia was the assurance by George V. Allen, United States Ambassador to Iran, that as far as the American government was concerned, Iran was free either to accept or reject the concession. However, Allen asserted, that if the concession was refused, Iran could count on United States support against Soviet threats and pressure. This promise of aid heartened the Iranian legislators and on October 22, 1947, the Majlis defeated the oil agreement by a vote of 102 to 2. At the same time a bill, sponsored by Premier Qavam,

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<sup>3</sup>New York Times, September 12, 1947, p. 3 and 27.

was adopted. Its provisions were: (1) Iran would explore its own oil resources with its own capital the next five years; (2) negotiations for an oil agreement with the Soviet Union were null and void; (3) no concessions would be granted to foreign powers and no foreign partners would be taken for oil exploration; (4) if oil was found within the next five years, the government might negotiate with Russia with a possible view of selling the oil; and (5) the government must negotiate with the Anglo-Iranian Oil Company to obtain a higher share of its profit.<sup>4</sup> Thus the Iranians re-established their sovereignty and temporarily halted the acute danger from the Soviets to the north.

Part five of the October, 1947, bill set the stage for the fireworks that soon were to engulf Iran and the Anglo-Iranian Oil Company with the resulting decision by the Iranian government to nationalize its oil industry instead of trying to increase its income through royalties from the company. But to fully understand the reason for the fifth point, one must go back three months to a commitment by the Iranian cabinet to undertake a seven-year plan of economic reform to build roads and bridges, power and irrigation establishments, and public buildings which would cost more than 400 million pounds. Since ordinary anticipated revenue for 1947-48 was only 40 million pounds against an anticipated expenditure of 55 million pounds, a great deal more money would be needed to finance the ambitious plan. Possibilities for added funds were from Anglo-Iranian royalties, an International Bank loan, or some other

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<sup>4</sup>George Lenczowski, Russia and the West in Iran (Ithaca: Cornell University Press, 1949), p. 311-12.



foreign loan.<sup>5</sup> Thus considerable agitation arose for revising the 1933 agreement with Anglo-Iranian to provide for increased revenue through royalties.

The shortsightedness of the Anglo-Iranian Oil Company in failing to take advantage of this opening to improve its position in Iran has since proved disastrous. The company's hand was forced, however, in 1948 when Sir Stafford Cripps, then chancellor of the exchequer, requested British companies not to increase dividend payments as a means of combatting inflation. To the Iranians, whose royalties were proportioned to Anglo-Iranian distributed dividends, it looked like they would not share in the company's expanding post-war profits. To prevent the inevitable uproar, the oil company offered to revise the 1933 agreement.<sup>6</sup>

A long series of negotiations were carried out between the Iranian government and oil company representatives with their primary aim being to find an arrangement agreeable to both parties which would give the Iranians higher oil payments in recognition of the changed economic conditions brought about by the war. A new agreement finally was signed July 17, 1949, subject to ratification by the Majlis. Following essentially the same form as the 1933 treaty, the supplemental agreement, retroactive to 1948, provided for a basic production royalty and a share of the world-wide profits of the company. Three ways in which benefits to Iran were increased were: (1) A royalty increase from four to six shil-

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<sup>5</sup>Anglo-Iranian Oil Company--Some Background Notes ID 1059  
(London: British Information Service, May, 1951), p. 5.

<sup>6</sup>"Setback in Iran," loc. cit., p. 165.

lings a ton; (2) in lieu of taxation the payment was raised to one shilling (gold) per ton; and (3) along with receiving a sum equal to twenty percent of any ordinary stock dividend distribution exceeding 671,250 pounds, Iran was promised an immediate payment equal to twenty percent of the general reserves as of December 31, 1947, and similar payments according to general reserve allocations with payments not being subject to British income tax.<sup>7</sup>

When the treaty was ratified, Anglo-Iranian was to pay the government 5,090,909 pounds and in line with the increased royalty, the 1948 and 1949 royalties would be boosted from 9,172,269 and 13,489,271 pounds to 18,667,822 and 22,890,261 pounds, respectively.<sup>8</sup> From 1937 to 1950 under the 1933 treaty Iran received some 46 million pounds in royalties while under the proposed 1949 agreement it would receive at least an additional 33 million pounds for those years. In 1950, the company estimated payments would total 42 million pounds in royalties, excise duties, sterling exchange premiums and other incidentals.<sup>9</sup>

The agreement was submitted to the Majlis immediately after signature. Since only ten days remained in the parliamentary term it was impossible to consider it at that time and it was carried over to the next session. Because of slowness in selecting a new Majlis and other reasons, the supplemental agreement was not pro-

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<sup>7</sup> Anglo-Iranian Oil Negotiations ID 1062 (London: British Information Service, June, 1951), p. 2; J. F. A. Swanston, "Persian Oil Disputes," World Review, August, 1951, p. 3.

<sup>8</sup> Swanston, loc. cit., p. 3.

<sup>9</sup> Anglo-Iranian Oil Negotiations ID 1062, loc. cit., p. 3.

posed for examination until June of 1950--almost a year after it had been signed.

Although the supplemental agreement was far more advantageous to Iran than the 1933 treaty, many Iranians felt it did not go far enough. The more they considered the new offer the more they became convinced they had been "taken in" and the more incensed they became. Tudeh played an active part in instigating riots and parades demanding the nationalization of the oil industry. The company was accused of falsifying balance sheets, discriminating against workers and even of starting a typhoid epidemic to divert attention from the oil problem.<sup>10</sup>

Dr. Mossadegh,<sup>11</sup> who later played a vital role in the oil dispute as the Iranian prime minister, enters the problem at this point. As leader of the right-wing National Front party, Dr. Mossadegh was appointed head of an eighteen-man Majlis committee to consider the supplemental agreement before it was to be debated before the general assembly. Four other National Frontists also were on the committee. The group examined the agreement until December, when it reported that it did not favor it because it did not satisfactorily safeguard Iranian rights and interests.<sup>12</sup> Although the new agreement was said to be favored by the prime minister, General Razmara, and some of his followers,<sup>13</sup> National

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<sup>10</sup>The author is using the New York Times spelling of the Iranian prime minister's name. Other spellings in various publications are Moussadek, Mossedagh, Musaddiq, and Mossadeq.

<sup>11</sup>"Setback in Iran," loc. cit., p. 166.

<sup>12</sup>The Wall Street Journal, November 30, 1951, p. 8.

<sup>13</sup>Swanston, loc. cit., p. 4.

Front-led opposition in the Majlis and general dissatisfaction throughout the country, caused the prime minister to withdraw the bill on December 26.

The Iranians' attention was focused four days later on Saudi Arabia where the Arabian-American Oil Company had concluded a fifty-fifty profit-sharing agreement after deduction of United States income tax with that country. Believing this to be a better plan, the Iranians asked for terms at least as good as the American company had granted. A comparison of the fifty-fifty plan and the increased payment proposal under the ill-fated 1949 agreement led Anglo-Iranian officials to conclude that Iranian profits under the former proposal in 1951 would be greater because of increased output and higher prices. It was estimated it would be approximately 50,000 pounds. However, company officials pointed out that the supplemental agreement would be better when profit margins were low. Another point was that the cost to the company of its payments to Iran under the fifty-fifty plan would have been greater than that of the American Oil Company to Saudi Arabia. A large part of the payment to Saudi Arabia was by way of the local income tax on company profits which consequently exempted the company from income tax payments in the United States. Under British income tax law, the Anglo-Iranian company would not have been able to claim that relief.<sup>14</sup>

Nevertheless in February, 1951, the oil company notified the Iranian government that it was willing to negotiate for a fifty-fifty profit-sharing plan. Until an agreement could be reached,

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<sup>14</sup>The Wall Street Journal, loc. cit., p. 8.



the company offered the Iranian government an advance against royalties of 5,000,000 pounds and to pay 2,000,000 pounds a month on the same basis for the remainder of the year.<sup>15</sup>

The situation underwent a radical change when Dr. Mossadegh proposed to his oil committee that the oil industry should be nationalized. At this stage there were members of the committee prepared to oppose such a course. They were backed by General Razmara who, on March 3, presented a report prepared by government judicial, technical, and financial experts to a session of the oil committee questioning the legality or practicability of nationalization. The content of his testimony later was broadcast over the Teheran radio.<sup>16</sup> General Razmara's objections to nationalization were cut short on March 7 when he was assassinated by a member of the Fidayan-i-Islam, an extremist sect of the National Front party.

It is extremely doubtful, however, if Razmara would have been able to block more than temporarily the committee's nationalization plan. The day following his assassination the committee informed the Majlis it had accepted Mossadegh's nationalization proposal and requested a two-month extension of the time given it to study the proposal to prepare the nationalization plan. The Majlis approved a Single Article Bill confirming the committee's nationalization decision on March 15 and it was confirmed by the Senate on March 20, 1951.<sup>17</sup>

The British government was seriously disturbed by this turn

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<sup>15</sup>Swanston, loc. cit., p. 4.

<sup>16</sup>Ibid.; The Wall Street Journal, loc. cit., p. 8.

<sup>17</sup>The Wall Street Journal, loc. cit., p. 8.

of events and on March 14 it presented a note to the Iranian government which pointed out that the Anglo-Iranian Oil Company had spent large sums on developments in Iran on the security of a regularly negotiated agreement which was to be valid until 1993 and its operations could not legally be terminated by an act of nationalization. The note also charged that successive Iranian governments had not presented the Supplemental Agreement in a favorable light to the Iranian people.<sup>18</sup>

While the Iranian legislature discussed the oil problem, a series of strikes and demonstrations, centered mostly in the Abadan area, broke out. Three British employees and nine Iranians were killed in a riot on April 12. However, the situation had improved by April 23 and most employees returned to work. Again the Tudeh was accused of fomenting the trouble, although it definitely was on the opposite side politically from Mossadegh's National Front party.<sup>19</sup>

In the meantime, the oil company had advanced its monthly royalty payment of 2,000,000 pounds<sup>20</sup> for March but was told by the Iranian government that it was considering that sum as part payment for any claim that it might have against the company. Consequently, the company refused to make any more payments of that kind.<sup>21</sup>

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<sup>18</sup>Swanston, loc. cit., p. 4-5.

<sup>19</sup>Anglo-Iranian Oil Company--Some Background Notes, loc. cit., p. 7.

<sup>20</sup>Supra., p. 72.

<sup>21</sup>Swanston, loc. cit., p. 5.

The oil committee lost no time in drawing up its nationalization plans. By April 26 it had approved the text of a bill giving immediate effect to the nationalization principle. The way for its acceptance was further paved on April 27 when Hussein Ala, who had succeeded General Razmara as prime minister, resigned. On April 28 he was succeeded by Mossadegh who, the same day, obtained passage through the Majlis of the nationalization bill. The Senate confirmed the Majlis' action April 30 and the Shah gave his consent to the measure on May 2.<sup>22</sup> Thus exactly a half century from the time when the original concession was granted to William D'Arcy, Iran regained complete legal possession of its black treasure.

The Iranian Ministry for Foreign Affairs explained the meaning of the nationalization law on May 3. "The real purpose of the law is to transfer all the company's assets...and installations...to the Iranian government as well as the control of the production and exploitation of the oil fields."<sup>23</sup>

The effects of the nationalization were threefold: First, it cancelled the 1933 concession; second, it expropriated all Anglo-Iranian Oil Company property in Iran so far as it related to the oil industry; and third, it also vested the expropriated oil industry in the hands of the new National Oil Company which was provided for in the Law of Implementation which was passed by April 30 and the Senate May 1.<sup>24</sup>

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<sup>22</sup>Ibid.

<sup>23</sup>N. Cheng, "The Anglo-Iranian Dispute," World Affairs, October, 1951, p. 389.

<sup>24</sup>Ibid., p. 380-90.

The Law of Implementation included the following terms:

1. Provision was made for a Mixed Board, consisting of five members of the Senate and five Deputies of the Majlis, the Minister of Finance or his deputy, and one other person to regulate the execution of the law.
2. The government, under supervision of the Mixed Board, was ordered to remove the oil company from control of Iran's oil industry. If the company used its claim for compensation as an excuse to forestall delivery, the government was authorized to deposit twenty-five percent of the current oil income, minus production cost, in a bank acceptable to both parties.
3. Both Iranian government and company claims were to be reported to the Iranian parliament.
4. The government, under the supervision of the Mixed Board, was ordered to investigate company accounts and to supervise oil production until a management board could be appointed.
5. A charter for the National Oil Company was to be prepared.
6. Additional Iranian oil specialists were to be selected and trained.
7. Former Anglo-Iranian customers could purchase at current world market prices the same quantities of oil they had taken from January of 1948 to March 20, 1951.
8. Mixed Board proposals were to be presented to the Majlis.
9. The Mixed Board's work was to be completed within three months, although it could ask for an extension of time.<sup>25</sup>

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<sup>25</sup>Anglo-Iranian Oil Negotiations, loc. cit., p. 2.



Faced with the nationalization decision, the oil company attempted to invoke Article 22 of the 1933 agreement which provided that any dispute should be settled by arbitration, each side nominating an arbitrator and the two arbitrators selecting an umpire. If either side failed to nominate its arbitrator, the International Court of Justice should be asked to select a sole arbitrator. Lord Radcliffe (a Lord of Appeal in Ordinary) was named on May 8 as the company's arbitrator but the Iranians refused to consider naming a representative. Consequently, the company applied to the International Court on May 26 for a sole arbitrator. Simultaneously the British government applied to the court to hear a dispute between itself and Iran on the grounds of a denial of justice to a British national (the company) whom Britain was entitled to protect. On May 28, Iran informed the court that it did not recognize its jurisdiction over the dispute.<sup>26</sup>

The Iranians further clarified their stand on May 30 when a memorandum was issued which informed the oil company that negotiations would be resumed only if the "former" company would recognize the principles of nationalization in accordance with the Law of Implementation and that negotiations should not go beyond the limits of the law. It also was emphasized that Iran would not consider the British government as a party to the dispute.<sup>27</sup>

The Anglo-Iranian Oil Company agreed to send a mission to Teheran. The group, consisting of four company directors and headed

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<sup>26</sup>Ibid.; Swanston, loc. cit., p. 5.

<sup>27</sup>A Short Historical Account of the Iranian Oil Question and Its Recent Developments (Iranian Government Publication), p. 13.

by Basil R. Jackson, its deputy director, arrived at the Iranian capital June 12 and negotiations began June 14. The Iranians considered the presence of the delegation at Teheran an acceptance by the company of the Oil Nationalization Law.<sup>28</sup>

After five days of discussions, the mission placed settlement proposals before the Iranian government. These were that the company should pay 10,000,000 pounds immediately as an advance against any sum which would become due as the result of an eventual agreement on the understanding that the Iranian government should not interfere with the company's operations while discussions were proceeding. The company also offered a further monthly 3,000,000-pound sum during the negotiation period. As a basis for discussion, the company agreed to the vesting of all its oil properties in Iran in an Iranian National Oil Company and that in consideration for this the new company should grant the use of its assets to a new company which would operate on behalf of the Iranian National Oil Company. The distribution of Iranian oil products would be carried out by an Iranian-owned and operated company. The company's earlier offer to negotiate on fifty-fifty terms also still stood.<sup>29</sup>

The Iranians immediately rejected the Anglo-Iranian proposals and negotiations were suspended. In explaining its refusal to consider the company's suggestions, the Iranian representatives stated:

The contents of the said note were totally contra-

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<sup>28</sup>Ibid., p. 14.

<sup>29</sup>The Wall Street Journal, loc. cit., p. 8; Swanston, loc. cit., p. 6; Anglo-Iranian Oil Negotiations, loc. cit., p. 8-9.

dictory with the Oil Nationalization Laws, and explicitly rejected their enforcement. Moreover, their proposals with reference to the transfer of the Iranian assets of the former company to the National Oil Company of Iran, and the transfer of the benefit rights of the said assets to a third and new company to be formed by the former oil company, were not only contrary to the Oil Nationalization Laws, but amounted to a revival of the former company under a new guise. It was for this reason that the negotiations were suspended.<sup>30</sup>

In rejecting the oil company's proposals, the Iranians listed as a prerequisite for any negotiations, that all proceeds from the company's operations from March 20, less working expenses, should be handed over, seventy-five percent being retained by Iran and the balance to go into an account for eventual settlement of compensation for the oil company.<sup>31</sup>

While the company and Iranian missions were meeting in Teheran, the government appointed a temporary board of directors for the National Iranian Oil Company. Tempers flared at Abadan when the temporary board insisted that tanker masters sign receipts in favor of the National Iranian Oil Company for all cargoes before being cleared by customs. Anglo-Iranian refused to accept this move and on June 26 all tankers were ordered to withdraw from Abadan and Bandar Mashur without cargoes. Oil that already was loaded was pumped back into shore storage tanks and the ships sailed in ballast. Without any means of transporting the oil, operations at the refinery were reduced to only processing enough oil to fill the storage tanks. The company began evacuating wives and children of its British employees by air.<sup>32</sup>

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<sup>30</sup>A Short Historical Account, loc. cit., p. 14.

<sup>31</sup>The Wall Street Journal, loc. cit., p. 8.

<sup>32</sup>Swanston, loc. cit., p. 7.

Fuel was added to the smoldering dispute when the Iranian government brought forth a bill that would treat any interference with oil operations as sabotage with penalties ranging up to death. An indication of how it might have been used was given when the temporary board intimated to the company's Iranian manager, Mr. Drake, that it considered his refusal to meet its wishes regarding receipts amounted to sabotage. Mossadegh, who hoped to persuade British employees to stay in Iran and work for the National Iranian Oil Company, succeeded in having the measure dropped before it reached the Majlis but it still left considerable ill feeling among the British workers who indicated on July 27 that they would refuse any Iranian employment offer.<sup>33</sup>

Because of the time which would elapse before its case could be dealt with by the International Court, the British government applied to the court for an interim injunction in the dispute on June 22. This move caught the Iranians somewhat unprepared and they had no time to obtain visas for delegates to appear before the court which was located at The Hague. However, the Iranian stand was presented in a lengthy telegram from M. B. Kazemi on June 29 to the court president. In explaining his government's dissatisfaction with the 1933 agreement, Kazemi listed the following reasons:

1. Taxes paid to the government in 1948 of 1,400,000 pounds were twenty-one times less than the 28,000,000 pounds paid to the British government in taxes. The tax received by the Iranian government was less than two percent of company profits, while in

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<sup>33</sup>Ibid.



1933 the tax paid to Iran amounted to four percent of the company's total receipts.

2. Oil sold to Iranians by the company cost four to five times more than the original cost in Iran.

3. The 1933 agreement did not make the oil company liable for any customs duties or dues which would total more than royalty payments each year.

4. Although the company had agreed to progressively replace foreign employees with Iranians, the number of foreign employees had increased from 1,800 in 1933 to 4,200 in 1947.

5. The company kept information as to its activities and production secret.

6. Under the 1933 agreement the company was bound to base the exchange rate for sterling on the actual value of gold but instead the official rate of sterling was used which caused the Iranian government a great loss of profits.

7. Agreements made by the company with the British Navy and Air Force for sale of oil at reduced rates were contrary to Article 21 of the 1933 agreement which bound the company to regard the interests of the Iranian government in good faith.<sup>34</sup>

At the same time Kazemi argued that the International Court had no jurisdiction in the matter because the dispute was between Iran and a private company. He stated the Iranian contention that

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<sup>34</sup>Taken from the copy of a telegram from the Minister of Foreign Affairs at Teheran, M. B. Kazemi, to the President of the International Court of Justice, c/o Imperial Legation of Iran, The Hague, June 29, 1951, p. 5.

the fact that the British government was a large shareholder in the oil company did not change the status of the company as a signatory of the original contract. The Iranian stand on the finality of the nationalization decision was indicated in the telegram when Kazemi stated:

Regardless of the legal incompetence of the claimant and the fact that the case is beyond the jurisdiction of the International Court, the subject matter of the issue could not in principle be taken by any claimant to any court for action, for as it has already been explained there is no question of cancellation and annulment and invalidity of the 1933 agreement. The question is that the Iranian government and people have made use of one of their most indisputable natural rights, which is the right of sovereignty, and have nationalized the oil industry throughout the country without any discrimination. The British government has repeatedly made use of this right by nationalization of their own industries. It goes without saying that owners and concession holders of those industries have had no right to complain.<sup>35</sup>

Despite the Iranian stand, the court issued the following three-point ruling on July 5: (1) Both governments were to take no action that would prejudice the rights of the other party in respect to the carrying out of any subsequent court decision; (2) no interference was to be made in company management from controlling the activities; and (3) the British and Iranian governments were to establish a Board of Supervision consisting of two members appointed by each country and the fifth member a national of another country.<sup>36</sup>

The Iranians paid no attention to the court ruling. The coun-

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<sup>35</sup>Ibid., p. 5-6.

<sup>36</sup>Swanston, loc. cit., p. 7; The Wall Street Journal, loc. cit., p. 8.

try's press and radio continued an extremely violent anti-British, anti-company campaign which caused several riots and demonstrations in Teheran and other Iranian cities. This was the situation on July 15 when the United States took its first step toward intervention when President Truman appointed W. Averell Harriman as his special envoy to Iran to try and bring about a settlement.

Although greeted by bloody rioting when he reached Teheran, Harriman made remarkable progress and for a while it was thought he had performed a miracle. He prodded the Iranians into agreeing that the British should continue to produce and sell Iranian oil and at the same time got the British to agree on the nationalization of Iran's oil wells and refineries. His approach in discussing the touchy situation with the Iranians was that Iran could not produce and sell its oil without British help and that the United States would not help Iran produce or sell its oil if it refused a reasonable British offer.<sup>37</sup> Harriman persuaded the Rt. Hon. Richard Stokes, Britain's Lord Privy Seal, to sit down with Iranian leaders for another try at settlement. Stokes and other British officials arrived in Teheran August 5.

After some deliberation, Stokes forwarded a plan which recognized the nationalization principle and proposed that the Anglo-Iranian Oil Company as such would cease to operate in Iran and that all its assets in Iran would be turned over to the Iranian government under compensation arrangements to be agreed upon later. A purchasing organization to buy oil from the Iranian National Oil

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<sup>37</sup>"Harriman Settles Oil Crisis," Business Week, August 4, 1951, p. 21-23.

Company and sell it in the world market, and an agency, with some Iranian directors, to manage the oil fields and Abadan refinery, also were proposed. Although the plan was somewhat different in form, the financial arrangements were similar to those offered by the British earlier that year. However, the Iranians wished to confine the discussions to a narrower field and would not agree on arrangements for company managements in Iran. Therefore, Stokes withdrew his proposals and left Iran August 24. Harriman left soon afterwards.<sup>38</sup>

Meanwhile, the question of oil receipts had forced a complete halt to company operations at Abadan as well as in the oil fields. All British, Indian, and Pakistani employees were withdrawn from the oil fields and the port of Bandar Mashur and most of the workers were repatriated. The British staff was reduced to 350 men, while all Iranian labor in the oil fields was paid off. On September 5, Mossadegh threatened to withdraw residence permits of British technicians in Iran if the oil talks were not renewed within fifteen days. This proved to be only a threat, since the premier made three unsuccessful attempts to get the Majlis to back this ultimatum.<sup>39</sup>

An Iranian demand to resume oil negotiations was sent to Harriman in Washington on September 12 by Mossadegh with the request that it be forwarded to the British government. Five days later,

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<sup>38</sup>The Wall Street Journal, loc. cit., p. 8.

<sup>39</sup>Events Leading Up to the Present Situation of the A.I.O.C. in Iran (Pamphlet Published by the Anglo-Iranian Oil Company, Ltd., July, 1951), p. 2.



Harriman flatly refused to forward the communication because he considered the proposals sent with the demand dealt principally with continued residence of the British staff in Iran since the Stokes mission to Teheran.<sup>40</sup>

On September 17, the company announced it would suspend approximately 20,000 Iranian staff and workmen at Abadan at the end of the month and would not be responsible for paying their salaries and wages. This was followed by an order to Anglo-Iranian from the Iranian Oil Board to hand over all its transport and shipping. The Iranians began seizing company barges and tugs on the Shatt-el-Arab River. But the most crucial development of all came on September 25 when the Iranian government ordered all British staff from the country within seven days.<sup>41</sup>

The final evacuation was effected the first week in October when 322 technicians, the last of some 3,500 British oilmen who had been employed at the world's largest refinery, left Abadan. Heading the final departure was Kenneth B. Ross, the refinery director.<sup>42</sup>

The key development which prompted the Iranians to close the door completely in the Anglo-Iranian Oil Company's face took place three days before the final evacuation order. On September 22, Great Britain brusquely rejected an unsigned and undated note presented to the British Embassy in Teheran by Hussein Ala, Iranian Minister of the Court, as being an unacceptable repetition of pre-

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<sup>40</sup>The Wall Street Journal, loc. cit., p. 8.

<sup>41</sup>Ibid.

<sup>42</sup>Time, October 15, 1951, p. 34.

vious proposals. With this concilistery gesture dismissed, the Iranians lost no time in ejecting the British from the Abadan installations.<sup>43</sup>

The British explained their brusque rejection of the Iranian note by claiming to have information that the Shah was ready to act by dismissing Mossadegh from office. The British interpreted this as meaning that any negotiations with the prime minister merely would strengthen his hand and postpone his dismissal.<sup>44</sup> The British explanation seemed unlikely, however, because of the aroused public opinion in Iran against the British. In a land where the bullet was a common instrument for ending political regimes, the Shah would have been risking almost certain assassination by Mossadegh's fanatical followers had he dismissed the premier.

The spotlight was focused on the United Nations Security Council on September 28 when Great Britain called on that body to enforce the July 5 interim injunction issued by the International Court of Justice. It also asked the Security Council to request Iran to cancel the ouster order as being the "final flouting" of the World Court.<sup>45</sup>

The Iranian government reacted to the British decision to submit the dispute to the Security Council by announcing that Premier Mossadegh would personally lead a delegation to New York City

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<sup>43</sup>"Behind U.N.'s Newest Problem: Intrigues Cause Iran Impasse," Newsweek, October, 1951, p. 31-32.

<sup>44</sup>Ibid., p. 32.

<sup>45</sup>Ibid., p. 31.

to meet with the United Nations group but it would not admit the Council's competency to deal with what it considered an Iranian national affair. The 76-year-old premier, who is subject to occasional fainting spells, arrived in New York on October 15. While the main delegation went to a hotel, Mossadegh was taken to a hospital where he stayed while the Security Council took up the case.<sup>46</sup>

Sir Cladwyn Jebb presented the Anglo-Iranian case to the Security Council on the same day the Iranian premier arrived in New York and called for a constructive solution of the problem.<sup>47</sup> Mossadegh appeared before the Security Council on September 22 and disappointed a vast television audience by not indulging in the histrionics which had characterized many of his Teheran appearances. He argued only briefly against the Council's competency in considering the oil dispute and simply asked for new negotiations. The premier allowed an aide to air Iran's anti-British complaints before the United Nations group because he explained that if he were to do it the Iranian public would expect him to rise to new heights of anti-British invective.<sup>48</sup>

The Security Council continued to discuss the matter until October 19 when it decided to adjourn debate until the International Court of Justice had ruled upon its competence in the matter. Groundwork was laid for this decision on October 10 when

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<sup>46</sup>"Drama at the United Nations: Mossadegh Versus the British," Newsweek, October 15, 1951, p. 30.

<sup>47</sup>The Wall Street Journal, *loc. cit.*, p. 8.

<sup>48</sup>"Negotiating Posture," Newsweek, October 22, 1951, p. 40 and 45.

Great Britain submitted a written memorial dealing with the merits of the case and the question of jurisdiction to the Court. At the same time the Court stated it would allow Iran three months either to submit a counter-memorial on the merits of the case or to enter an objection to the jurisdiction.<sup>49</sup>

Although Premier Mossadegh did not discuss his government's oil stand at length before the Security Council, he did take advantage of a visit with President Truman in Washington to fully present his case to the National Press Club on November 14. In describing the aims of the nationalization decision, Mossadegh stated:

The leaders of the oil nationalization movement of Iran have the one sole aim of creating a well-developed, free, and independent Iran. This constitutes their only plan and program of action. We desire to see Iran stand upon its own feet unmolested by foreign intervention. We want our nation to attain a sound and secure position in order to discharge our duties as a useful and effective member of the family of nations.<sup>50</sup>

Contrary to British claims that Abadan refinery and oil field installations would become piles of junk within a short time because of lack of upkeep and looting, Mossadegh sounded an optimistic note in discussing future oil revenues when he remarked:

In spite of the fact that through artificial devices the flow of our oil output to the outside world is hindered, we have not remained idle for a moment, but have started our exploitation activities at home in the best possible manner as far as management is concerned. Our Iranian oil experts are competent enough to produce the same amount of crude oil from the wells as previously has been done by the former company; and provided the mar-

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<sup>49</sup>The Wall Street Journal, loc. cit., p. 9.

<sup>50</sup>New York Herald Tribune, November 15, 1951, p. 19.



keting difficulties are removed we can expose for sale large quantities of crude oil. Again...the Abadan... refinery...has resumed operations for a second time through our own experts, and they can run it on a thirty percent basis of its original yearly capacity which is more than 24,000,000 tons. In order to utilize this great refinery to its full capacity, we are planning to employ the necessary numbers of foreign technicians; and meanwhile, we are working on a plan to educate an adequate number of technicians from our young men for the various branches of the oil industry.<sup>51</sup>

While holding nineteen meetings with President Truman and other government officials, Premier Mossadegh made three unsuccessful bids for financial aid. They were: (1) A personal loan from the president of \$120,000,000 during the next year with an immediate advance of \$50,000,000; (2) a speed-up of the pending \$25,000,000 loan from the Export-Import Bank; and (3) permission to withdraw the maximum amount possible from the International Monetary Fund.<sup>52</sup>

Mossadegh returned to Teheran the last week in November with the troubled oil cauldron boiling as hot as before. As 1951 closed, the most historic and significant year in Iran's history, neither side was willing to give appreciable ground. Iran's reply to the British memorial submitted to the International Court of Justice still was pending.

On the actual oil front, the two countries were brought only slightly closer together by the Washington talks. The British gave ground on the managerial claim and indicated readiness to accept a neutral company, possibly Royal Dutch Shell, which had gained a reputation for non-intervention in countries in which it

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<sup>51</sup>Ibid.

<sup>52</sup>"Small Change in Iran," Newsweek, November 26, 1951, p. 42.

developed oil, but no proposed management contract appeared to be acceptable to both sides. Both groups had agreed to compensate the British through preferential prices on Iranian oil, although no exact price had been set. The Iranians still balked at admitting they could not market oil without the help of Anglo-Iranian or other major world distributors.<sup>53</sup>

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<sup>53</sup>Ibid., p. 42 and 47.

## CHAPTER VI

### CONCLUSION

The nationalization of the Iranian oil industry is another link in the chain of events which has marked a steady reduction in Great Britain's overseas empire. It corresponds with India's achievement of self-government and the current agitation for freedom from foreign dominance in Egypt, Indonesia, and French Indo-China. The world's attention has been particularly focused on that arid land because of the economic importance of its vast oil supply and the strategic position it holds in European and Middle Eastern affairs.

In Iran, the shortsightedness of the Anglo-Iranian Oil Company and its major stockholder, the British government, has caused an immense amount of trouble. Instead of anticipating trouble and meeting it before it happened, the oil company attempted to remedy the situation after it happened which was about as successful as trying to fight a forest fire with a wet sack.

The Anglo-Iranian Oil Company is to be commended for its program of health protection, public housing, and aid to education. Despite Iranian charges that the company did not live up to these phases of the 1933 agreement, there is every evidence that it did-- at least to the "letter" of the treaty.

But what the company did not do was to respect the "spirit" of the 1933 concession agreement. Its shortsightedness provided a significant contrast to the Creole Petroleum Company, a subsidiary of Standard Oil of New Jersey, in its intelligent formation of a

"partnership" with the Venezuelan government. Creole participates in charitable and civic affairs, goes far beyond the law or business necessity in raising the living standards in advancing Venezuela to important company posts, almost has eliminated American personnel. Literacy has been increased tremendously among Creole workers. Of course, there is considerable difference between remote Venezuela and Russian-menaced Iran, but the point is that Creole anticipated its troubles and tried to remedy them before they happened while Anglo-Iranian tried to meet its troubles after they developed.<sup>1</sup>

World War II had a tremendous indirect effect on the development of the decision to nationalize Iranian oil production. The country was revived by enormous amounts of money and supplies which poured into the country when the Allies set up a supply route to Russia. Many Iranian workers received more money for their labor than they ever thought existed and consequently they became aware of their economic potential for the first time. At the same time the demand for oil by Allied war machines revealed to the Iranians the value of their oil industry.

In order to rid their country of British influence, the Iranians consciously set up the nationalization of their oil industry as an end in itself. Although the Iranians are today able to turn out some 35,000 barrels of crude oil for home consumption,<sup>2</sup> it appears impossible for them, in the near future, to return Abadan

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<sup>1</sup>See "Creole Petroleum; Business Embassy," Fortune, February, 1949, p. 91-96.

<sup>2</sup>New York Times, March 23, 1952, p. 4E.



and the oil fields to full production without outside help.

Politically the country has been united behind Mossadegh but financially it is near bankruptcy. All government budgets have been slashed fifteen percent, government automobiles, except those for a few ministers and deputy ministers, were auctioned off, and all building and road projects have been temporarily stopped.<sup>3</sup>

Although at the end of 1951 the Iranians have succeeded in blocking Russian oil plans in their country, the situation still swings in the balance. The unemployed oil workers present a dangerous element which could swing the country to communism if they remain unpaid long. Although Mossadegh has professed anti-Russian sentiments, it is possible he could turn to that country for help in putting the oil industry back on its feet before allowing his country's economic structure to completely crumble. Mossadegh was compared to a "child who stands before a hot stove with his right hand there but looking over his shoulder to see if his papa is going to grab him" by Henry F. Grady, United States ambassador to Teheran for fifteen months. This attitude was to indicate how Iran was playing Russia off against the West.<sup>4</sup>

At the close of 1951 it appeared that Great Britain would have to resort to force in order to regain its oil interests in Iran. Although the matter has been presented to both the International Court of Justice and the United Nations for settlement, it now appears unlikely that Iran will heed any action by those two

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<sup>3</sup>Time, October 15, 1951, p. 34.

<sup>4</sup>"The Real Story of Iran," U.S. News and World Report, October 19, 1951, p. 15.

bodies in interfering on behalf of Great Britain.

The Iranian position in the dispute is that the matter is strictly one between the Iranian government and the oil company and that the only point that remains to be discussed is the amount of compensation due. This probably is the only item that will be settled by further discussions, although the legality of the Iranian action still is being disputed.

Evidence that Great Britain has accepted the loss of its Iranian supply is indicated by the rising production figures from its other oil interests in the Middle East. Great Britain, France, United States, and the Netherlands have put \$2,000,000,000 into Middle Eastern pipelines and wells. Production from the estimated reserve of fifty billion barrels had reached 1,925,000 barrels a day by March, 1952, and was steadily increasing.<sup>5</sup>

Although Great Britain probably has lost its vast Iranian oil supply, it continues to hold an active interest in the Middle East. Its concessions in Saudi Arabia, Kuwait, Iraq, and Bahrain Islands should give it a plentiful supply if it can apply the lessons learned in Iran by bettering its relations with the other oil-rich countries.

From all indications, the nationalization of Iranian oil was the final chapter in one of the many phases of British overseas imperialism. The full cycle of its strategic and economic over-  
sight in Iran was achieved in almost exactly fifty years from the time of the original oil concession. Official British govern-

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<sup>5</sup>New York Times, loc. cit., p. 4E.

ment interest and intervention dates back to 1907 when Persia was divided into three spheres of influence by the Anglo-Russian Convention. It reached its zenith during and immediately after World War II and then was climaxed by the Iranian nationalization of the oil industry.

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## APPENDIX

## APPENDIX A

THE 1933 CONCESSION AGREEMENT BETWEEN THE  
ANGLO-PERSIAN OIL COMPANY, LTD., AND PERSIA

1. The area of the concession was to be half the previous area until 1938, after which date the area would be 100,000 square miles.
2. The company lost its exclusive right for pipelines from May 1, 1933.
3. The company would pay four shillings a ton on oil sold in Persia or exported.
4. In addition, twenty percent of the dividends in excess of 671,000 pounds distributed to stockholders would be paid to the Persian government.
5. Arrangements would be made for safeguarding the Persian government in case of further depreciation of the pound sterling.
6. If from its general reserve the company gave anything to its shareholders, the Persian government would receive twenty percent as well.
7. On the expiry of the concession or on its surrender by the company, twenty percent of the reserve accumulated from 1933 would go to the Persian government.
8. The company would pay in lieu of income tax during the first fifteen years nine pence per ton on the first 6,000,000 tons of oil exported or sold, and six pence on each additional ton subject to a minimum payment of 225,000 pounds. During the next fifteen years the company would pay one shilling a ton on the first 6,000,000 tons sold or exported and nine pence on each additional ton subject to a minimum payment of 300,000 pounds. New arrangements for payments in lieu of taxation to be negotiated prior to 1963.
9. The company would progressively replace its foreign employees by Persians, and spend 10,000 pounds a year in educating Persia in Great Britain.
10. The period of the concession would be sixty years.
11. The company could not transfer the concession to another party without the consent of the Persian government.
12. On the expiry of the concession in 1993, all classes of the company's property in Persia would revert to the Persian government and during the ten years preceding the expiry the company



could not sell or export such property from Persia.

13. Regarding the sale of oil in Persia: the Gulf of Mexico or Roumanian price, whichever was lower, was to be taken as the basic price, and oil was to be sold to the public from the refinery at ten percent less than this price, and to the Persian government at twenty-five percent less.

14. Adjustments would be made in royalty payments, and payments in lieu of taxation to provide for fluctuations in the price of gold.

15. All differences were to be referred to arbitration.

## APPENDIX B

	CRUDE OIL PRODUCTION IN IRAN (TONS)	ROYALTY PAYMENTS TO IRAN (POUNDS)
1931.....	5,750,498.....	1,339,132
1932.....	6,445,808.....	1,525,383
1933.....	7,086,706.....	1,812,442
1934.....	7,537,372.....	2,189,853
1935.....	7,487,697.....	2,220,648
1936.....	8,198,119.....	2,580,205
1937.....	10,167,795.....	3,545,313
1938.....	10,195,371.....	3,307,478
1939.....	9,583,286.....	4,270,814
1940.....	8,626,639.....	4,000,000
1941.....	6,605,320.....	4,000,000
1942.....	9,399,231.....	4,000,000
1943.....	9,705,769.....	4,000,000
1944.....	13,274,243.....	4,464,438
1945.....	16,839,490.....	5,624,308
1946.....	19,189,551.....	7,131,669
1947.....	20,194,838.....	7,103,792
1948.....	24,871,058.....	9,172,269*
1949.....	26,806,564.....	13,489,271*
1950.....	31,750,147.....	16,031,735*

\*Had the supplemental agreement of 1949 been ratified, these payments would have been increased to: 18,667,822 in 1948; 22,890,261 in 1949; and approximately 30,000,000 in 1950.

## APPENDIX C

The ten-point agreement concluded between Iran and the Autonomous Republic of Azerbaijan, June 14, 1946

1. The Azerbaijan parliament will become a Provincial Council.
2. The Provincial Council will make four nominations for the Provincial Governor General, and the central government's Minister of Interior will appoint one of them.
3. The Azerbaijan army will be incorporated into the Iranian army with a commission arranging details.
4. Azerbaijan's irregular soldiers will become part of the national gendarmerie.
5. The Provincial Treasury will receive seventy-five percent of Azerbaijan taxes with Teheran receiving the rest.
6. Using Azerbaijan labor, the central government will build railways between Mianeh and Tabriz.
7. The Teheran government will assist in establishing a proposed Azerbaijani university.
8. Both Persian and Turkish will be recognized as official languages, and primary school instruction will be given in each.
9. The government will pay for private lands confiscated by the Azerbaijan regime for distribution to the peasants and will approve the distribution of public lands.
10. Election laws will be revised to establish parliamentary representation on a population basis.

THE ANGLO-IRANIAN OIL CRISIS

by

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AN ABSTRACT OF A THESIS

Department of History, Government, and Philosophy

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Iran, or Persia as it was known until 1935, covers 628,000 square miles and is thus equivalent in area to Great Britain, France, Italy, and Germany combined. It is bounded by Iraq and Turkey on the west, by the Soviet Union and the Caspian Sea on the north, by Afghanistan and West Pakistan on the east, and by the Persian Gulf on the south and southwest. It is largely a mountainous country, being traversed by two great mountain ranges, the Elburz in the north and the Zagros along the western and southwestern borders. These two mountain systems form the buttresses of the great central plateau. This plateau, which is from 2,000 to 6,000 feet above sea level, largely is desert.

Strategically, this semi-arid country occupies a key position in the Middle East. Even before the discovery of oil in Iran, Great Britain was intensely interested in the country because of its adjacent position to Afghanistan which lies across the northwest route to India. Russia has looked covetously towards Iran because control of the country would give it a warm water outlet on the Persian Gulf. If it were to control the Mediterranean or strike towards southern Europe, seizure of Iran would be a logical step in order to obtain an oil supply and an advantageous position in the Middle East.

The discovery of Iran's oil treasure immediately hastened foreign attempts to dominate Iran. Great Britain desired to control Iranian oil as a source of fuel for its Mediterranean fleet which was switched from coal to oil fuel in 1911 at the insistence of Winston Churchill, then First Lord of the Admiralty. Russia, which didn't enter the oil race until after the Bolshevik revolu-

tion, has periodically pushed its oil demands upon Iran. Although no fields have been developed in northern Iran, the Russians are convinced that oil is there and would make an excellent addition to its Baku fields.

Oil entered the Iranian picture in 1901 when an English subject, W. K. D'Arcy, obtained a concession from the Persian government. After several abortive and costly attempts, oil was found in 1908 at Masjid-i-Sulaiman in southwest Iran. In 1909 the Anglo-Persian Oil Company (as the Anglo-Iranian was known until 1935) was formed to take over and develop the concession. Its first acts were to build a pipeline 130 miles long from the discovery field to the Island of Abadan at the head of the Persian Gulf and to construct a refinery there. This refinery was continuously expanded and was the world's largest by 1950.

In May of 1914, the British government took a fifty-three percent shareholding interest in the company, with Winston Churchill again leading the way. The Anglo-Persian Oil Company entered into a long-term contract with the British Admiralty to supply fuel oil to the fleet. World War I temporarily forced a shut-down of Anglo-Persian activities but operations soon were restored in the post-war period. Between the two World Wars the company enormously increased the capacities of the Abadan refinery and of the pipeline systems. Moreover, a number of important new oil-fields were discovered and developed. Oil production rose from 1,100,000 tons in 1919 to 10,000,000 tons in 1938.

During the early part of this period, the relations between the oil company and the Persian government were marred by dispute

over the royalty rates. The royalties were based on the somewhat vague terms of the D'Arcy concession, which stated that the concessionaire was to pay the Persian government sixteen percent of the net profits of any company or companies formed to work it. Dissatisfied with its income from the concession, the Persian government cancelled the concession in November of 1932.

The British government protested the action and the action and the matter was referred to the Council of the League of Nations. The Council, after hearing the two parties, appointed Dr. Edward Benes, then foreign minister of Czechoslovakia, as mediator. Through his efforts the company and the Persian government entered into direct negotiations with the result that a new agreement was signed April 29, 1933.

The 1933 agreement was a compromise even though the Iranian government later was to charge that the agreement was forced upon it. The controversial sixteen percent of the net profits was dropped and a royalty of four shillings a ton based on the tonnage of oil exported from, or sold in, Persia was substituted. An additional sum was to be paid to Persia on every ton exported or sold in place of the official income tax. Moreover, the Persian government was to receive a sum equal to twenty percent of any distribution to ordinary stockholders exceeding 671,250 pounds. Other features of the concession were the reduction of the area to 100,000 square miles, in place of the 480,000 square miles of the D'Arcy concession, the gradual replacement of foreign personnel in Persia by Persians, and the extension of the concessionary period from 1961 to 1993.

World War II saw Iran occupied by British, Russian, and American forces for the purpose of maintaining a supply line to Russia. The occupation caused great sums of money to be spent in the country. An indirect result of the war was the unrest which developed into the cancellation of the Anglo-Iranian concession and the nationalization of the Iranian oil industry.

In an attempt to pacify the aroused Iranians, the company offered to negotiate for a new agreement in 1948. A more liberal compact was ultimately agreed upon by company representatives and Iranian government officials in 1949 and was signed on July 17. However, the move was too late. The Iranian Majlis (parliament) refused to ratify the agreement.

With the instigation of the National Front party and its leader Premier Mossadegh, the Iranian government voted to nationalize its oil industry in May of 1951. Thus after fifty years of oil operations in Iran, the industry returned to the mother country. The British government wisely decided against the use of force to restore its oil rights but instead took its case to both the International Court of Justice and the United Nations. At the close of 1951, both sides were standing fast with Iran determined to operate its own oil industry despite British protestations that competent technicians were not available. Iran set aside twenty-five percent of the profits from its oil operations to pay indemnities to Britain for loss of its machinery and installations. About all the International Court can do is determine the amount due Britain in indemnities.

Although considerable material has been written on the problem,



to the author's knowledge, no complete study has been made on the subject which presents both the Iranian and the British viewpoints. The author's study was confined chiefly to the twentieth century with chief emphasis being placed on British and Iranian activities on the oil scene. However, considerable attention was paid to Russia which has been quietly, but effectively, a definite factor in both Iranian politics and oil development.

Material on the subject was limited almost chiefly to periodical articles since 1933 in the Kansas State College library. Secondary sources containing considerable information on the problem were obtained from the libraries of the Universities of Colorado and Kansas. The Iranian and British embassies in Washington, D. C., also were generous in their submission of pamphlets and other printed material as was the office of the Anglo-Iranian Oil Company in London and its American affiliate, W. D. Heath Eves, New York City.